EXTERNAL DEBT AND ECONOMIC GROWTH IN NIGERIA

BY

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BEING A DISSERTATION SUBMITTED TO THE DEPARTMENT OF ACCOUNTING, BANKING AND FINANCE, FACULTY OF MANAGEMENT SCIENCES, DELTA STATE UNIVERSITY, ABRAKA (ASABA CAMPUS

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SUPERVISOR: DR. C.C. OSUJI

SEPTEMBER, 2016

DECLARATION

I hereby declare that this Dissertation is my research work and has not been previously presented wholly or in part for the award of other degree.

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CERTIFICATION

We the undersigned, certify that this research Dissertation titled External Debt and Economic Growth in Nigeria: is the original work of the candidate and has been fully supervised, and found worthy of acceptance in partial fulfillment of the award of Master of Science (M.Sc.) Degree in Banking and Finance.

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DEDICATION

This research Dissertation is dedicated to the Almighty God who has given me the opportunity to complete this program.

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ABSTRACT

This study reviewed the External Debt and Economic Growth in Nigeria with specific emphasis on Nigeria Over the period of 1985-2014. One major problem of this study is under development of the Nigeria Economy. An objective of the study is to measure the impact of external debt on the Growth of the nation. The theoretical view sees External debt as fiscal policy instrument which fills the savings Gap. By extension, external debt supplements Government external reserves and sustainable economic growth. In Empirical result, borrowings should become an option only when high priority projects are being considered and borrowed fund should be strictly monitored and evaluated to ensure they are used for the purpose for which they are borrowed. The Research design used in this study is the ex-post facto as method of design. The ordinary least square multiple regression analytical method was- used to analyze the results where GDP as the dependent variable and multilateral debt, Paris club debt, London club debt, promissory notes and others debt on the other hand were the independent variables. Student T-test and Pearson correlation was used to test the hypotheses. The analysis of the data revealed that all the forms of external debts contributed towards the growth of the GDP, the Pearson correlation explained that GDP had an inverse relationship with Paris club debt and Promissory notes while the dependent variable had a direct relationship with the rest of the independent variables. The hypotheses tested revealed that all the independent variables have a positive impact and are also significant to the effect of the dependent variable there by rejecting the null hypotheses and accepting the alternate hypotheses. The study concluded that external debts have a significant impact on the economic growth in Nigeria and therefore recommends that there should be an improvement in the management of these external debt borrowings towards sustainable growth.

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CHAPTER ONE

INTRODUCTION

1.1 OVERVIEW OF THE STUDY

Every country in the world aim at achieving economic growth and development. However, this is only possible if a country has adequate resources. In developing countries, like Nigeria, the resources to finance the optimal level of economic growth are in short supply; which is as a result of low domestic savings, low tax revenues, low productivity and meager foreign exchange earnings. Basically, for those reasons, many developing countries like Nigeria yearning for economic growth inevitably resort to external financing to bridge the gap between their savings and investments.

Sulaiman and Azeez (2012) posited that no Government is an island on its own; it would require aid so as to perform effectively and efficiently. One major source of aid is foreign borrowing or external debt. Hence, the importance of external debt on the growth process of a nation cannot be overemphasized. Relatedly, Aminu et al (2013) asserted that debt is one of the sources of financing capital formation in any economy. Nigeria is characterised by inadequate internal capital formation due to the vicious circle of low productivity, low productivity, low income and savings. Therefore, this situation calls for technical, managerial and financial support from western countries to bridge the resource gap. On the other hand, external debt acts as a major constraint to capital formation in developing nations (Nigeria). The burden and dynamics of external debt shows that they do no contribute significantly, to financing economic growth in Nigeria as in most bases, debt accumulates because of the servicing requirement and the principal itself. Besides, external borrowing is preferable to domestic debt because the interest .rate charged by international financial institutions like international monetary funds (IMF) is about half the one charged in domestic market, However, whether or not external debt will be beneficial to Nigeria depends on whether the borrowed money is used to the productive segment of the economy or for consumption.

The act of borrowing creates debt, Debt therefore refer to the resources of money in use in an organization, which is not contributed by its owners and does not in any way belong to them. It is a liability represented by financial instrument or other formal equivalent. External debt is the amount a anytime, or disbursed funds and outstanding contractual liabilities of residents of a country to repay principal to non-residents (IMF external debt statistics guide for compliers and users 2003). Actually, Nigeria's external indebtedness started during the colonial days. The last of colonial borrowing was the World

Bank (IBRD) loan of 1958 used to finance Nigeria Railway corporation extension to Bornu under the guarantee of United

Kingdom Government (Felagan, 1978). The financing of external transaction and repayment of foreign loans has been difficulties faced by Nigeria since early 1980s; as there has been so much reliance on external finance. As a result of falling oil export earnings. Nigeria's external debt rapidly became high from the position "under borrowed" in .1970s, her external debt stock amounted to a mere $985million in 1977: PUNCH NEWSPAPER ONLINE (MAY 2013) wrote that the Federal Government, the 36 states and the federal capital territory have borrowed a total of $86Omillion (134.l6billion) in the last one year from external sources. The debt burden in Nigeria is part of the wider crises .of accumulation which has already resulted in deteriorate in the aggregate performance of the productive sectors of the economy, chronic balance of payments deficit, big gap between government revenue and expenditure, the collapse of social services and. infrastructure and a general rise of prices, shortage of basic consumer goods and services, a drastic fall in standard of living and external assets. Adepoju et al (2007) stated that the main lesson of the standard "growth with debt" literature is that a country should borrow abroad as long as the capital thus acquired provides a rate of return that is higher than the cost of the, foreign borrowing i.e. increasing capacity and expanding output with the aid of foreign savings. The debt, if properly utilized is expected to help the debtor's country's economies by producing a multiplier effect which leads to increased employment, adequate infrastructure base, a 'larger expert market, etc. But this has never been the case in Nigeria and several other sub-Saharan Africa countries (SSA) where it has been misused. Apart from the fact that external debt had been badly expended in. these countries, the management of the debt by the way of servicing payment, which is usually in foreign exchange, has also affected their macro-economic performance. Events in the past few years have led to increasing concerns about the possibly adverse consequences of the substantial, accumulation of debt by sub-Saharan Africa countries. The experiences of countries like Mexico and Argentina, with debt overhang in the early 1980s heightened this fear of excessive external debt burdens will threaten financial stability with adverse consequences for the real economy, or that increases in debt will create political pressures that will make accelerations of inflation inevitably (summers, 1986). The view persists however, that the build-up in debt, particularly in the developing, economies, could imperil the stability of the financial institutions, borrowers and the economy at large to withstand recessions and other types of adversity (Ezeabasili et al 2011).

Nigeria external debt majorly consist of it's to two indebtedness giant international syndicates. Paris club and London club of creditors, The Nigeria external debt rose further to $33.lbillion in 1990 but declined to $27.5billidnin 1991 and increased steady to $32.6 at the end of December. The outstanding debt totaling 1999 was $32.6b at the end, of December, 1995. The outstanding debt totaled in 1999 was $28b with Paris club consisting the highest score with a share of $73 2pecent in 1999 prior to the canvass made for debt cancellation. Debts kept rising when no new loans were contracted: because they were not 'serviced. The fact is that development depends purely on a sustained increase in real income, which can only be achieved or accumulated from economic growth: Economic growth however, emphasize on the changes in economy's productivity over time. Growth tends 'to occur when total production increases more rapidly than population. As a matter of fact, economic growth is ever increasing quality of goods and services available to meet the economy's need over time, as a result, the higher the ratio of debt servicing payments, the lower the level of economic growth, The primary burden of Nigeria's public debt is indeed shifted to the future, thereby retarding economic growth.

In view of the forgoing arguments, the researcher is .thus motivated to carry his study on the Impact of external debt burden on the Nigeria Economic Growth.

Each emphasis will be on the relevance or otherwise of the nation's external borrowings in the country's economic state.

1.2 STATEMENT OF THE PROBLEM

The issue of external debt in Nigeria has become an immense status bestriding the main stream of international economy, and politics. Foreign aids are no longer used as instrument of assistance but as a weapon of oppression, suppression and perpetual under development. The need to examine and hence, utilize the machinery of foreign debt is anchored on a number of challenges and this includes:

(i) Underdevelopment of the Nigeria Economy

(ii) The unreliability of Domestic debt facilities

(iii) Effect of external debt burden on Gross domestic product GDP)

Lack of capital in the country has been the major cause of underdevelopment in Nigeria, as a. result there is need to inject funds into the system from other economies so as to keep up the growth in the country This can easily be sought from external financial institutions, Domestic debt in Nigeria have not only been characterized by its short term nature, but it has also by fluctuations, The reality on grounds that Nigeria firms and investors prefer to invest their idle funds in company shares and treasury bills than in Government bonds.

Economic growth over the years has been in Government bonds, Economic growth over the years has been identified as a long term project. In this direction, the need for external debt cannot be understated as a reliable substitute to the usually high interest charge domestic debt which in most times does not exceed a year. The burden and dynamics of external debt shows that they do not contribute significantly to financing economic growth in Nigeria as in most case, debts accumulates because of the servicing and principal itself, The burden of external debt could constitute negative impact on G.DP of Nigeria as this is a measure of economic growth.

1.3 RESEARCH QUESTIONS

As a basis upon which this study is conducted, the following research questions are relevant:

1. What is the impact of the Multilateral Debt on the Economic Growth in Nigeria?
2. What is the impact of the Paris Club Debt on the Economic Growth in Nigeria?
3. What is the impact of the London Club Debt on the Economic Growth in Nigeria?
4. What is the impact of the Promissory Note Debt on the Economic Growth in Nigeria?

5. What is the impact of the Others Debt on the Economic Growth in Nigeria?

1.4 OBJECTIVES OF THE STUDY

The central objective of the research is to assess the impact of External Debt on the economic growth in Nigeria. Other specific objective includes:

1. To examine how the Multilateral Debt have an impact on the Economic Growth Nigeria.
2. To examine how the Paris Club Debt have an impact on the Economic Growth Nigeria.
3. To examine how the London Club Debt have an impact on the Economic Growth Nigeria.
4. To examine how the Promissory Note Debt have an impact on the Economic Growth Nigeria.
5. To examine how the Other Debt have an impact on the Economic Growth Nigeria.

1.5 STATEMENT OF HYPOTHESIS

For the purpose of evaluating or in order to efficiently and objectively analyze or achieve the above objective; the hypothesis is formulated thus:

Ho_1: Multilateral Debt (MLD) does not have a significant impact on the Gross Domestic Product (GDP) of the Nigerian Economy.

Ho_2: Paris Club Debt (PCD) does not have a significant impact on the Gross Domestic Product (GDP) of the Nigerian Economy.

Ho_3: London Club Debt (LCD) does not have a significant impact on the Gross Domestic Product (GDP) of the Nigerian Economy.

Ho_4: Promissory Note Debt (PND) does not have a significant impact on the Gross Domestic Product (GDP) of the Nigerian Economy.

Ho_5: Other Debt (OTD) does not have a significant impact on the Gross Domestic Product (GDP) of the Nigerian Economy.

1.6 SCOPE OF STUDY

The scope of study will be impact of external debt burden on the Nigeria Economic Growth from 1985 - 2014, which is a period of 30 years. The study covers the whole economy of Nigeria and will be limited to evaluation of external debt burden and impact on economic growth of Nigeria. One problem of this study is the unreliability of Domestic debt facilities. An objective is to evaluate the relevance of external debt over domestic debt.

The area of location is Nigeria and the variables to be used are Gross domestic product (GDP), Multilateral Debt (MLD), Paris Club Debt (PCD), London Club Debt (LCD), Promissory Note Debt (PND) and Other Debt (OTD).

1.7 SIGNIFICANCE OF THE STUDY

Having identified some cause of debt, the various management strategies that have been adopted by successive Government in Nigeria; and also having examined the position of the economy vis-a-vis. the burden, this work would particularly, be relevant to scholars, economic policy formulators and Government investors, foreign international organizations, private, individuals and firms, future researchers and so on as the list is unlimited.

The following ways below identifies the significance of the study:

1. To understand the correlation between external debt burden and Growth of the economy.
2. To serve as a guide for future governmental policy indebt minimization and control.
3. Recommended appropriate yardstick for further research and documentation on Nigeria's external debt crises.
4. The study will be helpful to' citizens informing them of how the impact of external debt will improve their Output thereby their standard of living.

1.8 LIMITATIONS OF.STUDY

In the course of this study, the researcher experienced some constraints, which affected his efforts of making the project subject to further research.

Problems encountered were:

1. Financial involvement: Funds are included in the limiting factors in the collection of adequate data, Transportation cost and the present economic situation also contributed to it. The researcher is limited to the extent his resource will go.
2. Time frame: Research work is stipulated within a given time frame depending on things involved making it impossible for extensive research which would involve a greater number of people for a greater generalization. Enough time is needed in order to travel to other financial institutions and, other federal and state ministries of finance in Order to get adequate information. The study will provide an objective view to the relevance of debt cancellation to Nigeria economy.
3. Secrecy: Most of the data required for this research came from mainly the civil servants, who due to the nature of their responsibility and the oath of secrecy found it' difficult to disclose vital information freely.
4. Non availability of current data and relevant books: This research would be limited by several factors seen and unforeseen.

1.9 DEFINITIONOF TERMS

Principles and terminologies are subject to various interpretations depending on the context in which they are used for the purpose of this study the major operating terms are defined as follows:

a. **External Debt**: These are debts incurred when the Government of a country borrows from foreign banks, Government and international institutions like IMF, World Bank, parts club etc. Also it can be seen as unpaid portion of external resources required for development purposes and balance of payment support which could not be repaid when they fell due.

b. **Economic Growth**: is a long term rise in. capacity to supply increasingly diverse economic goods to nit's populations. This growing capacity is based on advancing technology, the institutional and ideology adjustment that it demands. It refers to increasing real output or real per capital output, of economy.

c. **Debt crises**: This is when a national government cannot pay the debt. It owes and seek as form of assistance.

d. **Debt services**: This is the amount paid on a loan in principal and interest, over a period of time it is usually calculated for a year.

e. **Debt management office (DMO)**: This is an executive treasury which has responsibility for ‘issuing gifts to fund the government borrowing activities.

f. **Gross Domestic Product(GDP):** This is the total market value of all final goods and services produced in a country in a given year, equal to the total consumer investment and government ‘spending plus the value of exports minus the value of imports.

g. **Capital Flight**: In the .World Bank (1985) study, Capital, flight ‘is defined as the sum of gross capital ‘outflows and the current account deficit less increases in official foreign reserves.

1.10 ORGANIZATION OF THE STUDY

This study shall consist of five chapters

Chapter one shall contain overview of the study statement of the problems that. the study seeks to address, the objective which the study seeks to achieve, the research question which the study seeks to ask, the hypothesis position which seeks to answer the hypothesis postulate for the purpose of the study, an organization of the entire study and a summary of chapter one.

Chapter two shall consist of a review of related literature which consists of the conceptual, theoretical and empirical review of the study conducted on the area of focus.

Chapter three shall highlight the research design adopted for the study, the population and sample size used for the study, The method of data collected used for the purpose of the study, the techniques used in analyzing these data and a summary of the entire chapter.

Chapter four shall contain the presentation and analysis of the discussion of the findings, conclusion drawn from the findings and recommendations based on: the conclusion drawn.

1.11 SUMMARY

This chapter has introduced the subject of this research as well as the problem statement of the study. Important research questions were raised that when properly addressed will provide policy ‘framework on, how to reduce external debt burden and borrowing. The study is based on cross sectional secondary data from 2002-2013. The study anticipated the constraints to be forced and made provision to minimize their collective effect on the result outcome of the project.

CHAPTER TWO

LITERATURE REVIEW

2.0 CONCEPTUAL FRAMEWORK

2.1 CONCEPT OF PUBLIC DEBT

Public debt otherwise ‘called government borrowings has over the years received much attention as a crucial component of any country’s macroeconomic policy framework. Debt management is also argued as an important factor that underpins the credibility and reputation of nations and ensures the stability of debt capital markets as well as the financial institutions that hold public debt (Audu, 2004, and Udaibir, et al, 2010). There is already a widespread recognition however in the international community that excessive foreign indebtedness of many developing countries remains a major impediment to their growth and stability.

2.1.1 External Debt Defined

Public or Government debt as the name implies are debt owed by the government within its economy or externally. According to CBN (2010), foreign debts or external borrowings are debt obligations the government, owe to multilateral bodies, London club, Paris club, foreign promissory notes and other unclassified external borrowings. External debt therefore refers to the resources of money in use ‘in a country that is not generated internally and does not in any way come from local citizens whether corporate or individual. Nigeria external debt is therefore defined as, debt owned by the public and private sectors, of the Nigeria’ economy to non- residents and payable in foreign currency, goods and services (Ogbeifun, 2007). The Guide ‘defines gross domestic debt as follows: Gross external debt at any given time, is the outstanding amount of those actual current and not contingent liabilities that require payment(s) of principal and/or interest by ‘the debtor at some point(s) in the future and ‘that are owed at non-residents by residents of an economy.

External debts in international economics relations described it as financial obligation that ties one party (debtor country) to other (lender country) It is the debt incurred that is payable in currencies other than that of the debtor country External debts precisely are the financial obligations that are due to financial creditors who are not residents of the borrowing country They include short term debt such as trade debts which mature between one or two years or whose payment would be settled within a fiscal year in which transaction is conducted.. Foreign debts can be incurred through a number of transactions such as trade, contractor-finance, supplies credit, private investment and public borrowing. The sources of foreign debts include Banks, International Financial markets, (Euro-money and capital markets), International organizations such as IMF, World Bank international loans, Multilateral and bilateral organizations. These foreign debts are usually incurred as foreign loans that are gotten through negotiations between countries on terms applicable to them. These foreign loan are to facilitate Growth purpose.

2.1.2 History of Nigeria External Debt

The origin of Nigeria external debt dates back to 1958, when a sum of US$ 28 million was used to finance the Nigerian Railways construction, Foreign borrowing was minimal between 1958 and 1977, but not the level that could be regarded as a burden to the country. Debt contracted during the period were the concessional loans from official sources such as the World Bank and Nigeria's major trading partners (i.e. bilateral and multilateral sources) with longer repayment periods from ten to forty ye4rs and lower interest rates.

Nigeria economy was characterized during the period of the oil, boom of the 1970s with high degree of its openness. The economy was heavily dependent on the external sectoring its manufacturing development strategy. Consequently; Capital-intensive technology, and assembly-type industries dependent on imported inputs were stimulated and Nigeria had a high import-GDP ratio. Indeed, the need to: protect a given level of consumer goods availability became so pervasive that it was difficult: to cut expenditure in this area Di.n4ing most of the 1970s, budgetary expenditure was greater than the fast rising income from oil, The 1978 collapse of oil prices, exerted considerable pressure on Government finances and it became necessary to borrow to support balance of payments and to finance development projects. The work of Adepoju, et al (2007) characterized Nigeria as a country with inadequate capital as a result of low productivity, low income and low savings The situation calls for technical, managerial and financial support from foreign bodies to bridge the gap Capital formation and development in developing countries are hindered as result of external debt External debts do not contribute positively to the economic growth of developing countries. The principal and servicing debt requirement of debt are what constitute the debt accumulation of developing countries.

However, according to Ajab and Audu (2006), the promulgation Decree no30 of 1978 limit the federal government of the external, loans it could raise to 5.0 billion (US$7,7billion). Nigeria faced with serious deterioration in the foreign exchange position which forced. Nigeria to raise the first “Jumbo loan” of US$1.billion from the international capital market (ICM) in 1978 increasing the total debt to US$2.2 billion,; Adepju, et al (2006). After thirteen years of military rule, the civilian regime arrived on Nigeria's political scene in 1979. The oil markets weakened in the 1980s bringing about are reduction in Nigeria's export earnings. But with the new constitutional system, and intensification of inappropriate macroeconomic policy(plus the system bf tariff protection and import licensing system) resulting in further appreciation of the naira, large external borrowing became inevitable after the foreign exchange reserves had been substantially run down.. Large external borrowing of the late 1970s was continued. Substantial increases in. external borrowing occurred between 1978 and 1983.

The government resorted to austerity measures in 1982 and 1983 relying heavily on, controls and regulations rather than correcting the structural distortions, and worsened the situation. With a new Government in power in 1985, policies changed towards a desire to combine austerity with adjustment. Between 1985 and 1986, external debt increased by about 20%. The year 1985 was crucial not only because of the economic malaise afflicting the economy and the urgent need for adjustment but also because of national debate surrounding the acceptance of the IMF loan, the dramatic fall in oil prices in 1986 increased the urgency of reform and Nigeria put in place a Structural Adjustment Programme in July 1 986w. External stock rose rapidly from $US4.6billion in 1980 to US$18,6billion in 1986, this included the trade arrears accumulated in 1982and 1983 amounting to US$29.7billion by 1988 and US$32.9billion debt outstanding at the end of i90, US$17.lbillion was owed to official creditors who were members of the Paris club, US$5.9 to the London club of creditors, US$3.7billion to multilateral financial institutions, mainly the World Bank. Group, US$4.8billion in the form of promissory notes issued by the central Bank of Nigeria respect of rescheduled, uninsured trade arrears, while other creditors accounted for the balance of US$1.7billion (Ajab and Audu 2006).

Following the successful Paris club debt deal and exit from the London club, the external debt stock dropped to US$3,54449mi11ion in 2006 from US$35.94billion in 2004 and stood at $3,654.21 as at December 31st 2007. On the other hand, domestic debt rose from US $10.3l4biIJion as at December 31St 2004 to US$18575.67billion by end of December 2007 representing 83.56% of the total public debt stock (DMO, 2006). It pertinent to underscore the reasons for the upward trend in the domestic debt stock over the years, While the US$18575.67billion domestic debt stocks. may seem to be a fairly large amount, its size largely reflects the cumulative effect of financing Nigeria’s budget deficit, including public sector capital expenditure needs. The increases are accounted for by different sets of factors, reflecting a shift towards market based funding of government deficits, borrowing for developmental purposes and unlending to institutions such as Nigeria Agricultural and Rural Development Bank, Bank of Industry and the Federal Mortgage Bank.

2.1.3 Types of Debt Instrument

a. General Obligation Bonds: Typically benefit a community as whole and are secured by the Full-faith- and-credit and taxing power of the issuing municipality. The municipality pledges unconditionally to pay the interest and principal as it mature, General obligation debts can be incurred for expenditure and improvement having an expected Useful life of more than one year. This does not include maintenance and repair (the need for which could be reasonable anticipated), supplies, and requirement that are not intrinsic to a structure. They have been the traditional form of financing for capital project such as land acquisition, schools, and water facilities sewerage facilities, and roads that are owned and operated by Government, GO bonds can also be issued to replace outstanding general obligation bonds, and are commonly referred as refunding bonds. There several types of GO bonds which place varying emphasis on the full-faith-and credit security and issuers taxing ability. This type of unlimited tax GO (ULTGO) bond are categorized by source of repayment as follows below:

(i) **Non self-supporting GO Bonds**: those which are paid for by property taxes or other tax sources, Non self-supporting and partially self-supporting GO bonds determine a district's Net Bonded debt (a measure of the debt burden on property of the district):

(ii) **Self-supporting GO Bonds**: debt issues paid from a project's revenue. The proceeds of self-supporting bonds are used to construct revenue generating enterprise or facility or there is an independent source of funds for bond repayment. These may be fully self-supporting or only partially self-supporting. If fully self-supporting, the bonds are not included in the net bonded debt of the district, but are inc1uded in the Net Bonded debt and Gross Bonded debt calculations. Another name for these types of bond is Double-Barrelled bonds.

(b) **Appropriation Bonds**: certificates of participation (COPs), sometimes referred to as lease purchase agreement' may be an alternative to issuing bonds and are often used to finance real property or equipment, construction of public facilities, and facility maintenance and renovation. COPs principal and interest (debt service) payment are not secured by a particular revenue source nor does the government have the authority to levy extra, taxes beyond' constitutional limits to pay debt service, and not importantly a security pledge of the real property or equipment. In the typical COP. if the issuers default, the structure or asset is repossessed, the security of the instrument, in the eyes of the investors lies in the ‘expectation that the government will choose not to forgo use of the structure or asset which may be a facility critical to the government function. COP differ from full faith and credit obligations in that appropriation, collateral(if used) is generally viewed as one means to incent the issuer to keep appropriating or lose access to an essential public asset:

Since the real credit is the annual appropriations of the issuer highly rated issuers sometimes issue COPs with little or even no collateral. In these cases, future access to the capital markets will be eliminated should they fail to appropriate for the payment Of COP.

(c) Full Faith and Credit Obligations: may be secured by a variety of V pledges except as restricted local charter, The municipality is still required to use all legally available resources to meet its obligation. FF and C bonds are backed by the general revenue and taxing power of the issuer within the limits of section II and IIb of article XL of the Oregon constitution. FF and C obligations are not subject to an annual appropriation process and are therefore often seen as a better credit than COPs. They are generally perceived by investors to have a higher risk than the unlimited tax general obligation bond, but are still perceived to be less risky than COPs, The difference in interest rate will depend On numerous factors, including the financial condition and reputation of the issuer, the revenue source used to repay the debt, the security pledge, and the nature of the asset being financed, Two types of FF and C bonds which place a varying emphasis on credit security and the issuer's taxing ability are: Full Faith and Credit (non self-supporting) and Full Faith and Credit Self- Supporting Obligations

(d) Revenue Obligations and bonds: are usually payable from revenue generated by the project or enterprise. They may be issued under the authority of the Oregon 'uniform revenue bond act and must adhere to applicable state and federal statutes and regulations. Both bonds and obligations have the same security structure and considerations with the note that revenue bonds are more widely recognized by investors outside of Oregon markets. No ad valorem property taxes are' levied or pledged. Revenue, bond holders do not have recourse against the full-faith and unlimited or limited taxing' power of the government and these bonds are' expected to be fully self-supporting. The bonds are generally repaid from user charges, grants, excise taxes or from enterprise earnings and do not rely on the ad valorern taxing powers of the government for their security.

Some examples of different types of Revenue are: Enterprise Revenue Bonds, Special Revenue Bonds, Double Barrelled Bonds, and Industrial Development Revenue Bonds.

(e) Urban Renewal Bonds: Authorized for cities, designated agencies of cities and countries. They are similar to GO bonds in that they are not repaid by property taxes. Also, they may not be used for similar infrastructure improvements such as streets, sewers, property acquisition and housing development. A difference is that they must be issued for the purpose of remedying “blighted” conditions within a specific community. Those bonds are replaced through taxes on any increase in assessed value above the frozen level, rather than the entire assessed value of the property; as in GO bonds. This is referred to as “Divide the taxes Revenues”. To use these bonds, an urban renewal area must be designated and property assessments for this designated area are then “frozen” at prevailing rates.

(f) Private Activity Bonds: are government debt instrument issued for the direct benefit of private business. These bonds bear numerous restrictions imposed by federal and state regulations: A frequent advantage of PABs is the private-use of a municipality’s tax-exempt name as a conduct to tax-exempt interest rates, Another advantage is that the government •issuer incurs no legal responsibility to repay private activity conduct bonds; rather, the private business credit quality provides the security for the debt financing and ultimately all repayment responsibility, The paramount consideration for the issuance of PABs in the state of Oregon is to minimize economic benefits to the citizens of the state by the promotion of appropriate economic development and other public purposes.

(g) Short Term Debt: It is defined as debt with a stated final maturity a the time of sale of3months, less, General obligations and Revenue Bon are classified as long-term debt; whereas Short-term debt instrument are usually referred to as notes or warrants. Local government, district and agencies may pledge anticipated taxes grants, anticipated bond proceeds, or other revenues when entering into contracts with lending institutions, for short-term financing. The office of the State Treasurer, Debt management Division does not track municipal debt of less than l3 months of short-term instruments are: Tax Anticipation notes and warrants, Bond Anticipation notes, Revenue Anticipation notes.

(h) Refunding Bonds: They are issued to replace or refinance previously issued debt, with a new debt. Refunding is typically used to restructure debt, to save borrowing costs through lower interest rates and revise legal restrictions or covenant. Current and Advance Refunding are two principal types of Refunding bonds.

(I) Zero Coupon, Capital Appreciation, and Deferred interest Bonds: They

are typically fixed bonds which pay interest every six months until they mature, These are also referred to as Current interests bond.

They do not, pay current interests, but rather delay payment to the .investor until maturity. This may provide a payment option that better meets the issuer's ability to pay the debt service.

(j) Variable Rate Bonds: do not have a fixed interest rate, rather the 'interest rate is allowed to fluctuate in response to a particular market rates which is periodically "reset" based on a period that is generally by a remarketing agent who is hired by the issuer and: remarkets the bunds each period at the lowest rate that the remarketing agent believes is necessary to remarket all the outstanding bonds.

2.1.4 Reasons for External Debt

There has been sustained debate on the justification for borrowing for Nigeria as a developing country especially in the view of the negative effects of debt on the third world war. Nzotta (1999) sought to fusty debt in a recent study. He articulated four primary motives for borrowing as:

(i) To smoothen Consumption

(ii) To see if domestic marginal product of capital exceeds the world cot of funds.

(iii) To facilitate internal transaction

(iv) To case the transaction to a new economic environment.

Aikhomu (1988) amplified further some reasons for resorting to borrowing. According to him, Loans are required;

(i) To supplement domestic savings which makes possible a higher rate of capital formation? As a chorally we can borrow to execute viable.

(ii) To build up a country's external reserved position and hence strengthen the heredity position of the country.

(iii) To absorb major shook in order to avoid wasteful deflation and stagnation in countries with weak markets.

The main thrust of the argument of the economics of borrowing is that the resource gap; expressed in terms of lack of adequate foreign exchange and domestic savings in the cause of demand for external resources by developed countries, (Anyafor,1996). The above views cannot be used to justify the importance of debt in the contemporary world of today. This is because the criteria for borrowing shifted from economic emphasis to political emphasis. This is why emphasis has been shifted from domestic debt to external debt both of which make up the total debts. However, in an economy growing under influence of rising investments; there are cleanse of investment to rise ahead of sowing create a demand for external finance to fit the gap between savings and investment. The role of some of the debt incurred through International Corporation, foreign investments in the bid to string the missing components, in the form of extra saving foreign exchange or skills, so as to accelerate the government organized match of people towards take off.

2.1.5 External Debt Burden

Debt burden arise when domestic production and/or consumption are foreign in order to pay interest to and amortize external debts, Debt is the outstanding amount of those current, and contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future end that are owned to non-residents by residents of an' economy.

Generally; debt is classified into four, major head namely;

1. Public and Publicly guaranteed debt
2. Private non-guaranteed credits.
3. Central bank deposits.
4. Loan due to the IMF.

According to the Nigeria minister of finance, the nation's foreign debt has risen by 40% to $9.38bn, up from $6,7bn recorded in 2013 from DMO. The debt is typically owed to foreign creditors such as multilateral agencies like Africa Development Bank, World Bank, the Islamic Development Bank as well as other bilateral sources including the China Exim bank, the French Development Bank (The Punch), It has been noted that the debtor-country like Nigeria have too much burden on their heads, the burden packaged with economic crises and socio-political difficulties. Expanding as much as 70- 90% of export earnings on debt servicing connote that little is left virtually to for the countries, to perform their constitutional obligations to ‘the citizenry. It is also carefully noted in its zeal to break out of economic shackles to achieve economic and socio-political development, the third world has chosen the option of seeking foreign loan to achieve Growth. This include embarking on capital intensive projects such as school hospital etc. the implication of this is that, the loan, well packaged with a number of conditionality, needs to be serviced and as such, recipient country is expected to invest the money in the business that will bring returns for servicing and paying back of the loan but, with the implementation of these non-profitable social projects (Aluko and Arowolo, 2010).

2.1.6 Benefits of External Financing

A part of the reason countries use eterna1 funding is it allows them to finance growth projects it could not fund on its own. It can be used for making large capital equipments purchases to facilitate growth as it is vital in maintaining economic and financial liquidity. In Nigeria for example, when faced with budget deficit or when there is paucity of money due to high debt to GD.P ratio, She (Nigeria) can turn to international debt and raise much-needed money. Infact, money borrowed from other countries can he invested to spur the economy toward reviving GDP. Also, most emerging economies such as Nigeria may not be able to attract direct foreign investments in the economy; they can turn to bilateral debt or institutions like the IMF and the World Bank.

Soludo (2003) asserts that countries borrow for macroeconomic reasons such as higher investment, higher consumption in education and health or to finance transitory balance of payments deficits. However, he believed that higher debt levels lead to debt servicing burden which leaves the country on the wrong side of the debt-laffer curve, with debt crowding out investment and growth. For a country aspiring to achieve particular target rate of growth, such growth may be limited by lack of domestic or foreign exchange (Obadan, 2001) Growth as he argued is limited by the domestic debt resource gap of the foreign exchange or extena1 sector gap and foreign borrowing is required to meet the larger gap. And foreign exchange is the dominant constraint , dual gap analyses stressed that additional role of foreign borrowing in supplementing foreign exchange which a .foreign exchange which a fraction of domestic savings might be utilised because actual growth would be constrained by the inability to import necessary input.

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2.1.7 Challenges of External Debt Financing

External debts have become the central problems of less developed countries like, Nigeria. The issue of Nigeria's external debt had no generated much public concern prior to 1980. It was at the beginning of l980sthatit became a topical issue of discussion among populace.

The Government incurs, debts by spending more than it raised in revenue. This debt is called a National or Public debt which is defined as the cumulative total of various government indebtedness at any given moment.

Since we are so much indebted, we must have to service the debt through payment of large interest and amortization charges to the, body we borrowed the money from, The interest charge we Pay is 'now so high and impact on the economy is negative. Payment of such interest is depriving the Nigeria: Government of revenue that should be used for other services. Increasing debt service obligations' in Nigeria therefore is constituting an impediment to the implementation of new development. Oriented projects because a proportion of new generated internally is set aside for servicing previous debts. The rate of investment tends to be low and unemployment rate is high because of our huge external debts. Furthermore, our reputation is tarnished and the developed nations are no longer confident with our economy nor us. This gives to reduction in the flow of foreign investment to Nigeria, which could have profound consequences for the economic growth prospect of the nation.

2.1.8 Types of External Debts

External debts are made up of different types. The type of external debt reflected the purpose for which the debt was incurred. Some of these are:

1. **Trade Arrears**: This arises when a country trades with other countries and is unable to pay either or wholly, for the goods and services supplied. For example, in the early 1980s accumulation of trade arrears accounting to US$9.8b between 1938 and 1988 was a result of Nigeria's inability to settle her import bills.
2. **Balance of Payment Support Loans**: The overall economic transaction between a country and the rest of the world classified into current, financial and capital accounts constitute the balance of payment position which may be favourable when it is surplus or unfavourable when it is a deficit. However a persistent unfavourable balance of payments may inform government's decision to seek for balance of payment support loan.

3. **Project-Tied Loans**: Investment which has good potential and prospects of accelerating economic growth and development lead government into contracting projects tied loans. As implied, this type of debt which is for the execution of a particular project is supposed to be se liquidating.
4. **Loans For Socio-Economic Needs**: The provision of the socio-economic needs of the people such as infrastructure, health. Education and other social amenities may necessitate borrowing by government to finance them.

2.1.9 External Debt Management Strategies

External debt management refers to the establishment of the conditions of issue and redemption of foreign loans. It involves how debts is administered or handled to avoid adverse economic effect. It also involves loan negotiation, monitoring of both Government direct debt and nongovernmental debt; controlling the debt including the measurement of the debt servicing capacity, risk management, exchange, interest rate and commodity price risk, debt institutions and the use of computer based debt management systems. To manage external debt effectively, authorities must project the time profile of debt service obligations; they must accurately forecast export earnings, domestic revenue and future access to finance, They must also monitor the potential for prepaying or refinancing their debt borrowings on better terms, to adopt loan maturities to project revenue or to cope with shortfalls in earnings from export or unanticipated expenditures on imports. Thus, debt management requires statistics on debt service obligations and on the balance of payment outlook. The major objective of external debt management policy is to achieve the benefits of external finance without creating difficult problems of macroeconomic and balance of payment stability (Klein, 1994).

The Landmark success achieved external debt was sustained in 1997. For the first time since 1992, the rising trend of our external debt profit in Nigeria was reversed with the reduction of the stock from US$325813 in December 1995 to $28.06b. Therefore, government will continue with the implementation of the strategies already put in place to achieve external debt service of the coming. In 1980, Management of external debt become a major responsibility of the CBN. This necessitated the setting up of a department in collaboration with the Federal Ministry of Finance to manage the external debt of the nation. It is necessary to note that Debt management strategy is unique, strategy developed to help a debtor manage their debt. This strategy is usually developed and implemented by an organization on behalf of the debt, usually because the debtor (country) is unable to sufficiently manage their debt on their own due to lack of knowledge or because they are overwhelmed by the amount of debt. In

Nigeria today, the office responsible for managing Nigeria debt and making debt management strategy is the debt management office. This office was established on 4 October, 2000 to centrally coordinate the management of Nigeria's debt. The Government uses the following measure as guidelines to external borrowing:

- Economic sector should have positive Internal Rate of Return (RR) as high as the cost of borrowing i.e interest.
- External loans for private and public sector projects with the shortest rate of return should be sourced from the international capital market while loans for social services or infrastructure could be sourced from confessional financial institutions.
- State governments and other agencies with borrowed funds should service their debts through the foreign exchange market and duly inform the Federal Ministry of Finance for record purposes.
- Private sector industries that are export-oriented are expected to service their debt from, their export earnings while others should utilize the foreign Exchange Market facilities for debt servicing.

The different strategies used are stated and explained below:

2.1.9.1 Limit on Debt Servicing Payments

This requires setting 'aside portion of export earnings to allow for internal development. In this regard, the state government was required in 1980 to spend not more than 10 percent of their total revenue on debt service payment based on the agreement with the federal ministry of finance. A defaulting state government can be bailed out, although the amount in default world is deducted at source from its budgetary allocation. In the case of the federal government a maximum of 30 percent of export earnings could be allocated for debt servicing.

2.1.9.2 Debt Servicing

Akinmade (1991) stresses that debt service ratio of 30% seem to he the ideal ratio adopted by the country. The prospects .of redeeming a substantial part of our debts in the short to medium term have become doubtful barring unexpected favourable development in the oil sector. While the debts have some in-built capabilities to grow on their own the urgent need for additional loan to close our persistent resources gap has made debt reduction through redemption most likely for now. However, the continue to provoke debate due to fluctuations in the debt service ratio as indicated in 1984 at 29.1% and 32.2% in 195.

2.1.9.3 Embargo on New Loans

The embargo ort new Loans and directives to state government to restrict external borrowing to the barest minimum, The embargo was to check the escalation of total debt stock and minimize additional debt burden, However, there have not been particularly effective because of indiscrimate quest for external loan. This policy was applied in 1981 to state government's borrowing from external sources. Occasionally, the federal government fixes .the maximum level of debt commitment for both the federal and state (CBN Annual Report 2000). In 19.78, the limit was US$5b for the federal government and in 1982 it was US$200b for any state government. The embargo was lifted in January 1999. Although rescheduling has conferred short term relief or debt service obligations, the debt overhang has however hardly been abated as the debt stock has continued to increase significantly.

2.1.9.4 Debt Conversion or Capitalization

This in a broad sense is the exchange of monetary instrument (i.e. promissory notes) for tangible assets or other financial instrument. It is a method of reducing a nation's burden by changing the character of its debt to achieve the benefit from conversion committee in February 1988 and within one year, a total of 138 applications amounting to $438.9m were received for conversion Activities under the debt conversion programme continued to be impressive in

1996. Although, the number and value of applications received and approved, respectively declined relative to the previous year (Osiegbu, Onuorah, Nnamdi, 2010).

Debt conversion has become a major responsibility of the central Bank of Nigeria in recent times resulting in the setting up of a department in the Bank to undertake the function. Consequently, the debt' conversion programme (DCD) was established in July, 1988 to implement Nigeria's debt conversion programme. Basically, Akinmade (1991) stressed that debt conversion involves "the 'exchange of Nigeria's foreign currency denominated debts for local currency which is then used in the purchase of equity capital in a local enterprise i.e. exchange of external debt for domestic debt or equity. He stressed further that "the objective of a debt conversion, programme to a debtor country is to reduce the stock of its debt while simultaneously economic growth and recovery". It attracts the needed foreign investment without a, corresponding increase in foreign exchange inflow. The Nigerian programme has been structured to minimize the effects of a number of constraints. For instance, there is a limit to the amount and type of debt to be converted and there is an effective monitoring scheme to 'ensure that the proceeds of such redemptions are' invested in well-defined and identifiable business. The programmers' serious limitation is' that it Offers only a litter scope for ‘reducing substantially the debt stock, According to Akinmade (1991), in Nigeria for example, less than 1% (N99 million) worth of debts was redeemed in the first year of the programme compared’ to outstanding debts of over 130 billion. As at 31st December, 1982, our external loan stock was reduced by US$ 306.7 million, comprising the US$ 138.3 million ‘and US$ 168.4 million converted in 1998 and 1989 respectively. Onijoha (1996) asserted that external debts va1ud at USS

153.7 million (about N8.’7 billion) were cancelled through the debt conversion programme. Since the inception of the Debt Conversion Programme, external debt valued at US$ 649A (about N19.2 billion) has been, cancelled. However, Sanusi (1998) states that.”Debt conversion can take many forms. These include the following:

A. Debt for Equity SWAP

This is the conversion of debt at face value and at the exchange rate for the currency of the debtor country. Proceeds are designated as registered capital investment of the creditors in the, debtor country. The proceeds are strictly for financing an entirely new company, expand a existing company, to recapitalize, an existing venture and or to finance portfolio investments. This scheme seeks to reduce the size of the external debts and link the servicing of the external’ obligations more closely to the country’s capacity to pay in that the outflows of returns to investors would depend upon the earnings generated by the activity being financed. This type arrangement was concluded on January, 1999 when Nigeria bought 62% or US$3.395b commercial debt owed to the London club at 60%n discount (CBN annual report, 1999) Its merit also include repatriation of capital flight, stimulation ‘of local capital market, stimulation of local capital market, stimulates local privatization. Inspite of the above benefit, it has some set, back which includes monetary expansion leading to inflation which may affect the inflow of foreign investment.

B. Debt for Cash

This is similar to debt to equity except that the proceeds from the conversion Are not capitalize but rather used for working capital for loan repayments and local repayments and for local tax payment.

C. Debt for Export

This involves the exchange of export for debt obligations. For example the government can export goods worth US$ 80 million in order to cancel external debts of that magnitude.

D. Debt-Debt Swap

This is a change of one creditor for another in respect of loans, Typically, the parties assign loans or give sub-participation to each other without otherwise changing the terms of payment.

E. Debt-Peso Swap

When conversion involves' residents of the country instead of a foreign investor, we term deal as a debt-peso swap. By peso, we mean local currency. Hence, debt-peso swap are designed for repatriation of flight capital. Residents buy their own country's debt in the secondary market using their funds abroad or foreign currency acquired in the parallel market.

F. Use of Debt in Financial Investments

This involves the use of debt (the redemption proceeds) to purchase stocks and bonds in capital market of the debtor country. This can also be extended to government development stocks. Consequently, the level of indebtedness and service obligations will decline in the main while foreign portfolio investment will rise correspondingly.

G. Debt Rescheduling

Before government introduced the Structural Adjustment Programme (SAP) in September, 1986, the external debt burden had become a clog in the country's drive towards self-reliance. And as trade arrears accumulated, most oversea correspondent banks refused to extend confirming lines of credit to Nigeria. The country has been able to achieve substantial relief by way of rescheduling our debts with both the London and Paris Clubs of Creditors. This is aimed at paying at a more favourable term lower interest rates and longer repayments periods.

H. Debt Refinancing

A refinancing arrangement involves the procurement of a new loan by a debtor to pay off an existing debt, particularly short-term trade debts The new loan may be contracted from the same creditors as the case may be. To solve the problem of paying for imports due to accumulated arrears o trade debts, it became necessary to seek for relief by refinancing the trade arrears. This, in 1984, Government decided to refinance the remaining trade arrears especially those contracted through open accounts and bills for collection by issuing promissory notes to cover them. The terms of the promissory notes agreements include the payment of interest at the rate of 1% above, the arithmetic average of the lending rate quoted by some major international banks in New York, London and Paris. They also include a maturity period of 2½ years and the redemption of the notes in 14 equal installments beginning from October, 1986. However, following the difficulty in servicing the debts under these terms, the agreement was renegotiated leading to the stretching of the repayment period year 22 years with an effective rate of return of 5% per annum. The new terms are generally believed to be the best relief package which the country has got. The total value of promissory' notes issued amounted to $ 4.8 billion.

1. Debt Buy-Back, Collaterization and New Money Options

The buy-back arrangement implies the offer of a substan'ia1 discount to pay off an existing debt. This type of arrangement was concluded in February, 1992 when Nigeria bought US$ 3.395 billion commercial debt 'due to the London Club at 60% discounts mother words. Nigeria paid US$ 1.352 billion to liquidate or buy-back the commercial debt. Furthermore, US$ 2.054 billion has been collaterized as 30 years per bond with the London Club. With this

Arrangement, the yields of the bond within a 30year period world offset or pay-off the collateral amount, which is referred to as the new loans by or creditor or a group of creditors to assist a debt - ridden nation

2.1.9.5 Monetary and Credit Policies

Monetary policy is the process by which monetary authority of a country generally a Central bank controls the supply of money in the economy by exercising its control over interest rates in order to maintain price stability and achieve high economic growth while credit policy is asset of principles that a financial organization or business uses in deciding who it will loan money to or give credit.

2.1.10 Management of DMO

Debt management office (DMO) as established on 4th October, 2000 to centrally co ordinate the management of Nigeria's debt, which was hitherto being done by, a 'myriad of establishments in uncoordinated fashion This diffused debt management strategy led to inefficiencies The Director-General's office is responsible for overseeing all the activities in the DMO, including those of all the departments in the Front, middle and back, offices, as well as the organizational Resourcing Department (ORD).

The Director's - General office also oversees the activities of the DMO secretariat with respect to the DMO's supervisory Board, including I).MOs collaboration with all the local and external stakeholders. These responsibilities are coordinated by the Executive Services Unit (ESU), wider the direction and supervision of the Director-General, There are four other units in the DG's office. The internal Audit & Control Unit (IA & CU), public Affairs Unit (PAU), monitoring & Evaluation and Special 1Dities unit (M & E and SDU) and information Technology and information system unit.(IT & ISU).

FGN bonds are Federal Government of Nigeria securities issued under the authority of Debt management office (DMO). Since 2003, DM0 has been regulating the activities of the PGN bonds market, while he Central Bank of

Nigeria acts as the issuing House and the Registrar. DMO also regulates the activities of the bond market and the primary Dealer/market makers. It's commenced the pursuit of its strategic objective of assisting Nigerian states develop debt management institutions, and capabilities, so as to forestall the possibility of relapsing into the debt unsustainability that was experienced by the country before its successful exit from, the Paris and London Clubs debt burden in 2005 and 2006, respectively.

2.1.11 International Debt Agencies

Nigeria's external 'debt stands in 2003 at US$938b. The hulk of Nigeria external debt comes from loans from multilateral agencies (IMP, .World Bank, AFDB, China development bank, etc).' The World hank s being, owed $5.86b,'theAFD group $866.llm, EXIM Bank. of China $1.03b, French Development Agency $108.95m, Euro Bond debt $:f.5 and ZTE crop $5 88m The State can only borrow externally with the permission from the Federal Government, The top five external states debtor are Lagos, Kaduna, Cross-River, Ogun and Oyo state.

However, 'Nigeria sinks deeper external debt under Jonathan's watch very high level 10:4trillion naira as at June 2014 and our current debt/GDP Ratio IS About 12.51%.

a. Eurobond

Eurobond initiate commenced in 2011 with the floating of the $500m Eurobond has positively changed the profiles of Nigeria corporate organizations and their ability to raise Long-term funds from the International 'Capital Market. The DG that the funds raised from the Eurobonds had been deployed to very critical sectors of the economy requiring urgent financing to boost the economy, especially the electricity power, Agriculture, solid minerals and dualization of the airport and Kubwa roads in Abuja.

b. Paris Club and London Creditors

The Paris club is an informal group of official money lenders formed in 1956 with its secretariat in Paris. It was created to find coordinated and lasting solutions to the payment difficulties experienced .by countries that owed its member countries, It is voluntary gathering of creditor countries willing to treat in a coordinated way the debt due to them by developing countries, The source of Nigeria's. Paris club debt, are, the loans insured through export credit agencies of creditor Governments or their appropriate institutions, extended to the Federal Government of Nigeria (FGN), the state and other public entities and which are covered by the guarantee of the federal Government of Nigeria. The Paris Club, debts: also include commercial credits or trade areas, incurred by private entities which have been verified by the federal government of

Nigeria. The drastic reduction in Nigeria's foreign exchange earnings in 1980s made it extremely difficult for Nigeria to meet its external payment to meet its external payment obligations resulting massive build up of arrears. The foreign creditors reacted suspecting new lines of credit, thus compounding the economic problems facing the country. Nigeria then decided to approach the Paris Club for an agreement on paying at alters date. Nigeria has rescheduled its debts on for different location: 1986, 1989, 1991 and 2000. The intended effects of rescheduling include extending the period of repayment and improving the means with which payments are made. In effect, it means postponing the evil days. However, despite this rescheduling agreements, Nigeria Paris Club debts still continue to increase because of the country's inability to fully pay what was due each day. Nigeria owes as at December 3lst 2004 to United Kingdom, Germany, France and Japan, but needs the consent of even the smallest creditors like Spain and Finland to be able to secure debt Relief. In 2006, in order to settle most of her foreign debts, Nigeria governments led at the time by former president Olusegun Obasanjo paid almost $20b:to giant International Financial Syndicate Le. Paris Club and London Club of creditors. On Friday, April 21st 2006, Nigeria paid off $12.4b in arrears and debts as was stipulated to fulfill arrangements and concord reached with the Paris Club in June 2006. In addition, the federal government of Nigeria finally paid off the last batch of outstanding debt owed to the London Club amounting, to $2.15b. For the settlement of both Paris Club and London Club of creditor, Nigeria paid off almost $20b. This is one the largest transfer of wealth a third world nation to the first world nations. Nigeria's total foreign debt stood at $35.916 as at June 2005.

The largest chunk .of the debt $3 lb was owed to 15 of the 19 creditor countries of the Paris Club.

c. Bilateral Creditors

The bilateral creditors fall into two categories: Paris Club and Non-Paris Club. The Paris club is primarily the group of wealthy donor nations which also belong to the organization for economic Cooperation and Development (OECD). The non-Paris club major donors include Eastern Europe, the former Soviet bloc with the exception of Russia, a new member o the club since 1997), and the Arab states, Bilateral creditors were the first to provide debt relief in the early 1980s. Today; the Paris club provides qualifying countries with some reduction or rescheduling of debt. The criteria are strict, but if a country qualifies, it can get a 67% reduction of a portion of its outstanding debt, up to 80% under the heavily indebted poor country initiative.

d. International Financial Institutions

The above is made up of the World Bank, international monetary fund (IMF), and regional development banks. They are government by member nations, virtually every nation in the world. These institutions raise the majority of their capital on international financial markets at very favourable conditions because of their triple A rating a rating received because their borrowing is guaranteed by all the member nations. Because, the international financial institutions offer the best terms, available, and have been given a special role in the international financial system, they insist on preferred creditors status which means that they must be paid back prior to other creditors. If the debtor county does not make payments on its loan on time, it is considered off-track and will ordinarily not receive loans from other creditors.

E. Multilateral or International Agencies

This is a list of aid agencies which provides regional and international development or/and assistance divided between national (mainly OECD countries) and international organization. Agencies of V numerous development partners from emerging countries such as India, Middle Eastern countries, Mexico, South Africa, Thailand, Singapore and so on are not included. New Zealand provides core funding to several multilateral agencies. Core funding is used to implement programmes in developing countries and across each agencies operations to support priorities agreed by board members. Additional funding is sometimes provided to agencies to help them respond to specific emergencies or significant new work, for example National disasters, health crises and conflict.

2.1.12 Economic and Debt Burden Measurement

The World Bank has employed some measures in measuring debt burden of the world countries. The number of macroeconomic aggregate which are useful in this regard:

1. Total external to Gross national product (EDT/GNP)
2. Total external debt to Export of goods and services (including workers' remittances) (EDT/XGS).
3. Total debt service to export of goods and services (TDS/XQS),
4. Total interest payment to export of goods and services (TNT/XOS)
5. Total interest payment to Gross national product (INT/GNP)
6. International reserve to, import of goods and services (RES /MGS).
7. Shot tern debt to total, debt/short -term/EDT)
8. Confessional debt to total debt (confessional/EDT)
9. Multilateral debt to total debt (multilateral/EDT) .
10. International reserves to total external debt (RES/EDT)

The relevance of each debt burden measures can be best useful when it relate foreign loan, According lyola (1998) “The central issue in debt of the poor countries are of two, the first is whether given all the debt indicators, indebted countries have the ability to pay. In other words given all the various indicators for this group of countries, is their ability really sustainable. Secondly, whether the large amounts of debts has delegations effects on the investment and growth in these countries, the debt overhang hypothesis and what should be to alleviate the debt overhang..

2.1.13 Relationship between External Debt and GDP

External debts is one of the sources of financing capital formation in any economy. For a company aspiring to achieve a particular target rate of Growth. Such country may be limited by lack of domestic savings or foreign exchange (Obadan, 2001). Growth as he argued is limited by the domestic resource gap of the foreign exchange or external sector gap and foreign borrowing is required to meet the larger gap. If foreign exchange is the dominant constraint, dual gap analyses stressed that additional role of foreign borrowing, in supplementary foreign exchange without which a fraction of domestic savings might be unutilized because actual growth would be constrained by the inability to import necessary input. There is widespread recognition in the international community that excessive foreign indebtedness of many developing countries remains a major impediment to their growth and stability. Developing countries have contracted large of debts, often at highly concessional interest rates particularly, in 1970s. The hope was that those loans would put them at faster growth, but as debt service ratios reached very high level in the 1980s, it became clear that for many of these countries e.g. Nigeria, debt repayment would not only just constrain economic performance in their countries. More, importantly, it would be virtually impossible to repay back these loans and leave unfavourable balance to support their domestic economy. Nigeria is atypical example of an African state that suffers under the crushing weight of a debt overhang, which means that the country currently has a huge external debt that constitute .a significant proportion of the GDP.

The grand cause of the debt crises is that, in most cases, the loan is not used for development purpose. The loan is, process is done in and shrouded with secrecy. The loan is, albinitio, obtained for the purpose of the personal interest and parochial purposes, It is usually tied' to party politics, patronage and elevation of primordial interest rather than the promotion of national interest and overall socio-economic development (Aluko and Arowolo, 2010).

Economic growth is a rise in the productive capacity of a country on per capital basis. It involves the expansion of the economy through a simple widening process. It is the increase in the nation& output or GDP of the nation (Eleje and

Emeroje, 2010). Analysis has also shown that rising external debt stock inhibits the pace of economic growth of Nigeria by increasing the cost of its servicing beyond the debt sustainability limit while external debt servicing was found not to impair economic growth.

Ezeabasili (2011) and some claim that the negative effect is through the decrease in investment. This negative 'relationship is often accredited to debt overhang "Which is' defined as the situation in which the expected debt service is likely to be an increasing function of the country's output level. The high debt servicing costs can be translated to resources that could otherwise be used to develop the, economy being paid to the creditors and this act as a burden on the fiscal situation of the country and the performance of its economy. Debt overhang can be observed when large debt accumulation of a developing nation acts as a deterrent to the growth process since benefit obtained from growth are constrained by huge debt servicing requirements as well as creating, a disincentive effect for investment. Debts burden may depress investment, and hence economic growth, through illiquidity and disincentive effects (Sulaiman, 2012). The illiquidity effect stems from the struggle to allocate scarce resources between consumption, investment and external transfer to service the existing debt and the distinctive effect are due to the expectations of future burdens which tend to discourage domestic investment as the high debt level service payments may discourage efforts by the government to carry out structural investments and fiscal reforms that 'could strengthen the country's economic growth' and. fiscal positions. Indeed, a government whose financial position is improving almost inevita1ly 'finds under increasing pressure to pay its 'creditors The disincentive could' discourage foreign investment, as debt overhang involves the accumulation of a large stock of debt that threatens the country's ability to repay its past loan thus, the debt overhang increases the investors uncertainty about the country's ability to pay and this lack of credit worthiness is a disincentive to invest which, therefore depresses economic growth.

External debt does not cause GDP, the flow of causation runs from GDP to external debt (Aminu and Anono, 2012).

2.1.14 Foreign Debt Servicing/Relief

Economist always sought out to find the ways through which a country can achieve long-lasting sustainable economic growth. The repayment of debt in the form of principal and interest payments which is cumulatively known as "debt service, payment" is identified to be a serious threat to economic growth of any country, by keeping all other factors constant. This repayment or "debt servicing" creates problems for many countries especially for low income countries because a debt has to be serviced more than the actual amount it was taken for. It out the country's limited resources and restricts financial resources for domestic need of development. External debt servicing creates a crowding effect because of the high real interest rates, terms of over borrowed country's worsen and tax rates increases, returns on investment declines thus creating a downward pressure on the investments in the country. Another problem rises as a virtue of debt servicing, is the problem of "debt overhang" which increases the amount 'of repayments b a virtue of the difference, in the actual and contractual value .of repayments, thus ultimately increasing the debt servicing burden, of a country. According to the World bank, when debt servicing of a country go beyond 20.% of its export earnings then its debts becomes unsustainable.

Debt servicing can have positive impact the economic growth as well. This can be because of the good terms of relationship with creditors or the negotiations or relief in terms of repayment or extensions of dates of repayment including debt forgiveness.

Oke and Sulaiman (2012) points out that developing country like Nigeria contracted large amounts of debts often at highly concessional interest rates particularly in 1970s. It was believed that such loans would place the countries at faster growth path through higher' investment. But as debt service ratios rose very high in 1980s, it became obvious to many of the indebted countries that debt repayment, apart from imposing as a constraint to economic performance in their countries, but would be virtually impossible to repay back these loans and leave a favourable balance to support their domestic economy.

Debt Relief is the partial or total forgiveness of debt or it is the slowing or stopping of debt growth, owned by individual, corporations or nations. Debt relief can be in two ways which are Debt Rescheduling and Debt Cancellation. Debt rescheduling is a practice that involves restructuring the terms of an existing loan in order to extend the repayment period while debt cancelation is forgiving of one's .debt. In June 29th 2005, Nigeria and Paris club announced a final agreement for debt relief worth US$l8billion and an Overall reduction of Nigeria's debt stock by $30.billion. The deal was completed on April 21 2006, when. Nigeria made its final payment and its books were cleared of any Paris club debt.

Today, there is a widespread political acceptance of the need to address debt, either by providing assistance in coping with debt or writing it off. Debt relief is therefore one of the leading issues in development and international relations today. There are, however numerous motivations or supporting debt relief, ranging from humanitarianism to managing and stabilizing the international financial system. Debt relief given to irresponsible governments is not only ineffective, but it is also lost opportunity to help better governed countries eradicate poverty. The immediate impact of the debt deal was to make Nigeria's foreign debt stock sustainable. The reduction in debt stock and corresponding reduction in foreign debt servicing immediately Fred up resources. As with all debt relief, this was not external financial assistance, but rather government funds that are were no longer tied to debt repayments. These savings will be referred to as "debt relief expenditure" or "debt relief funds".

A country can be said to achieve debt sustainability if it can meet its current and future external debt service obligations in full without recourse to debt rescheduling or the accumulation of arrears and w4thout compromising growth (IMF, 1996).

2.1.15 Comparism between Domestic and Foreign Debt

The basic character .of an internal debt is quite different from that of the external debt. In external debt, at the time repayment, there is real transfer of resources. In case of internal debt, however, since it is borrowed from individuals, and institutions within the county, repayment will constitute only a re-distribution of resources without causing any change the total resources of the community. High domestic rates encourage foreign borrowing and therefore, external debt increases, however domestic rates encourage local borrowing and Hence, local investment. External debt also means that the borrower is in thrall to foreign powers since foreign interest rates will directly affect the economy of the borrower white internal borrowing means the country maintains more of its economic sovereignty.

Particularly, Nigeria's domestic borrowing (debt). is aimed at escaping the dangers associated with external borrowings occasioned by rising government expenditure Vis-ã-vis falling government revues supplement the internal savings for productive activities through infrastructural development as well as management of other macroeconomic conditions of the country (Adofu and Abula, 2010) For instance, in 2013, the Federal Government proposed to spend 543b naira on domestic debt servicing out of 592b naira total debt service cost, yet domestic debt stock is to increase to approximately 7trillion naira($45billion) at the end of 2013, Audu and Abula (2001) are of the view that it is only domestic debt that influences growth and not foreign debt and vice-versa Thus, there is therefore the need to examine the individual and combined effects of internal and external debt in Nigeria to enhance proper policy recommendation to the government.

Osuji and Ozurumba (20130 investigated the impact of external debt financing on economic growth Nigeria with date covering 1996 to 2011. Based on the ascertion that debt, whichever type of form, is major problem militating against African development stride. It was shown that London debt financing possessed positive impact on economic growth which Paris debt, multilateral and promissory not were negatively related to economic growth in Nigeria.

2.1.16 Maturity Period

For debt liabilities, it is recommended that the traditiota1 distinctive between long and short term maturity, based on the formal criterion of original maturity, be retained. Long-term debt is defined as debt with an original maturity. Short-term debt which includes currency is defined as debt repayable on demand or with an original maturity of one year or less. If an instrument has an original maturity of one year or less, it should be classified as short-term, even if the instrument is issued under an arrangement that in nature

2.2 THEORETICAL FRAMEWORK

Debt as an instrument of finance is laden on seven (7) theories. These are so discussed under the theoretical framework. This is a cognizance of private, individual and government debt finance. However, Government etema1 debt is the main focus here.

2.2.1 Agency Theory

The idea that managers prefer internal financing to extrna1 financing is, of course, old (e.g., Butters 1949). Traditionally the argument was that outside financing required managers to explain the project details to outside investors, and expose themselves to investor monitoring. Managers dislike this process. Thus, managers have a preference for retained earnings over external financing but their is no direct prediction about the relative use of debt versus equity when seeking external financing. These ideas were subsequently developed into agency theories with Jensen and Meek ling (1976) being a prominent contribution, Myers (2003). points out that some versions of agency theory imply a financing hierarchy: Agency cots of equity, for example, could, result in a pecking order. Consider a simple' and conventional example of the agency cost of equity that follows Jensen and Meckling (1976). The firm is owned and run by an entrepreneur. She has R dollars; if she invests all of R then her return is V (R) with V 0 >0 > V 00. Her consumption of desirable perks is the difference between, R, and the amount that she chooses to invest. Let the amount of investment be I. With no outside financing her problem is

Max I

V (I) + (R – I) (4)

s.t. I ≤ R. (5)

This gives the obvious first-order condition, V 0 = I if the constraint is not binding. Let 1* denote the solution to this first-order condition. This gives her a payoff of V (I*) + R 1*. What happens if the constraint. This binding so that 1*> R? Then, outside financing is interesting. Assume financing is with risk-less debt. Then, she asks for I* - R and promises to repay D. The entrepreneur invests optimally and .repays properly. There is no distortion; if internal financing is inadequate, then risk-free external debt do 24 not cause any distortions. Introduction of equity into the model requires a notion of exogenous debt capacity that becomes binding at some point. For simplicity, we directly assume that outside financing takes the form of equity E and that the entrepreneur cannot commit to not consume the perks: The outsiders will get fraction 1 - s of the firm. The amount raised will be E = (1 - s) V (I). Thus, the problem for the entrepreneur is now:

Max I

sV (I) + R + E – I (6)

s.t. IR + E. (7)

The associated first-order condition is sV 0 (I) = 1. The solution is denoted I**. As long as s < 1, then I**< 1* and the entrepreneur is under investing. She bears the full cost of any perks not consumed and she must share the benefits. Obviously, this underinvestment is inefficient. Use of internal financing would re- suit in higher welfare. Thus, retained earnings are preferred. Debt is just as good in this simple model, Equity is inefficient. We, therefore, have a version of the pecking order, Jensen and Meckling, (1976) also identified an agency problem of debt called risk shifting. The idea is that if the firm is operated on behalf of equity, only cash flows in non-bankrupt states matter. The firm will therefore tend to accept project that are too risky but with large payoffs in good states, The major pre-occupation of exponents of this study with particular reference Government finance is that external debt is usually sourced as the first the resort as this just the country at risk of divulging critical finance information to international organization which in turn may put the country at risk in period of welfare.

2.2.2 Pecking Order Theory

The pecking order theory stems from Myers (1984) who in turn was influenced by the earlier institutional literature including the book by Donaldson (1961), Myers (1984) argues that adverse selection implies that • retained earnings are better than debt and debt is better than equity. Myers (1984) a firm is said to follow a pecking order if it prefers internal to external financing and debt to equity if external financing is used, This definition can be interpreted in different ways. What does it mean to "prefer" internal financing?' Does this mean that the firm uses all available sources of internal, finance before using any debt or equity issues? Or does this mean that, "other things equal", the firm will mostly use internal financing before using external financing? If the verb "prefer" is interpreted strictly the theory is more testable, If "prefer? is interpreted in the 'other things equal' way then any test of the theory rests on the specification of "other things equal." Most firms hold some internal funds, (cash and short-term investments) even when raising outside funds. This is so obvious that it is rarely considered in tests of the pecking order. It is implicitly assumed that these funds are held for reasons that are outside the theory, such as for transactions. Accordingly, almost all discussions maintain some version of an "other things equal" interpretation of the relative use of internal and external funds, A second problem for the definition concerns the preference of debt over equity. As we will see, initial claims for the theory tended, to rest on strict interpretation in which equity is never issued if debt is feasib1, As it has become increasingly clear that this strict interpretation is not only more refutable, but actually refuted, proponents of the pecking order theory have moved increasingly to the “other things equal” interpretation. Different papers invoke different empirical versions of “other things, equal” Of course, the more a test depends on the other things, and the less the data is explained by the pecking order

At what point is equity introduced? The strict interpretation suggests that after the IPO, equity should never be issued unless debt has for some reason become infeasible. This leads to the notion of a “debt capacity.” The debt capacity serves to limit the amount of debt within the pecking order and to allow for the use of equity. Obviously, this raises the problem of defining ‘the debt capacity. The literature provides no agreed- upon definition. Several recent papers have used. Factors commonly employed in tests of the trade-off theory, in order to define the debt capacity. Of course, this leads to difficulties in interpreting the results, Pecking order models can be derived based on adverse selection considerations, agency considerations, or other factors. There seem to be a couple of common features that underlie pecking order theories. The first feature is the linearity of the objective function. This helps because it means that costs tend to drive the results to corner solutions. The second common feature of pecking order models is the relative simplicity of the model. The pecking order hierarchy is a relatively simple structure. A model that is complex is unlikely to have such a simple solution. When many things are factored in, a more complex range of things tend to happen. Thus, it seems that the pecking order is generally more likely to emerge from an illustrative model than it is from a unifying model.

In Government finance, sourcing: of fund can be through production/mining of. currencies (equity) but this is' less preferred, to borrowing from external' source s the former will bring' about multiple inflation; which in itself is against the ethics of monetary policy regulation.

2.2.3 DUAL GAP Analysis

The dual gap analysis explained that development is a function of investment and that such require domestic savings; is not sufficient to ensure that development take place. There must be possibility of obtaining from abroad the amount that can be invested any country is identical with the amount that is saved. Furthermore, if the domestic resources are t be supplemented fro abroad, such as excess of import over export (i..e $M > E$)

$$I - S$$

$$M - E$$

Hence, $I - S = M\ B - E$

In national income accounting an excess of investment over domestic saving is equivalent to excess surplus of import over export.

Income = Consumption + import + savings

Output = Consumption + export + investment

Income = Output

Then Investment - Saving = Import – Export

This is the basis of dual gap analysis, assure that there is a country that requires savings and investment, good import to achieve a particular rate of growth If the available domestic saving fall short of the level necessary to achieve the target raye of growth; a saving investment gap is said to exists on a similar note, if the maximum import requirement needed to achieve the growth target are greater than the maximum possible level of export, then is an export-import of origin exchange gap.

The exponent of theory sees external debt as a monetary policy instrument which fills the savings gap. By extension external debt supplements government external reserves, domestic debt. However the interest rate charge of external debt accounts for an further wide name “The Saving Gap”.

2.2.4 Keynesians Theory

Indebtedness does not bring about charges either for future generations or present generations as a result of the investments that it generates. According to this theory, indebtedness, which revives demand, results in more proportionate increase in investment through the accelerator effect? This in turn leads. to arise in production.

According to Keynes (1936), monetary restraint decrease in money, would cost high interest rate, stratify investment and therefore cause a fall in real income. Although the impact of inflation was not expressly stated has regard its relationship with interest rates. However, one could deduce the direction of prices to rise since according to Keynes, high interest late would stratify investment and full income which in turn meant low ;productivity capacity of firms and society.

By implication, the Keynes theory or model view external debt as funds sourced by Government to boost its current economic output level arid it is considered as n acronym for foreign direct investment (FDI). Though, a fixed interest charge rate.

2.2.5 Modigliani-Miller Theorem

The theory of business finance in a modern sense starts with the Modigliani and Miller (1958) capital structure irrelevance proposition. Before Modigliani and Miller, there was no generally accepted theory of capital structure. They start by assuming that the firm has a particular set of expected cash flows.

When the firm chooses a certain proportion of debt and equity to finance its assets, all that' it does is to divide up the cash flows among investors. The classic paper is by Miller (1977) in which consideration of both personal and corporate tax determines an economy- wide lever- age ratio, but there are multiple equilibriums in which debt is issued by different firms. This research has shown that the .Modigliani-Miller theorem fails under a variety of circumstances. The most commonly used elements include consideration of taxes, transaction costs, bankruptcy costs, agency conflicts, adverse selection, lack of seperability between financing and operations, time varying financial, market opportunities, 'and investor clientele effects, Alternative models use differing elements from this list. Given that so many different ingredients are available, it is not surprising that many different theories have been proposed. Covering all of these would go well beyond the scope of this paper. As an empirical proposition, the Modigliani-Miller irrelevance proposition is 'not easy to test. With debt and firm value both plausibly endogenous and driven by other factor such as profits, collateral growth opportunities, etc., we cannot get a structural test of the theory by regressing value on debt. However the fact that there are fairly reliable 'empirical relations 'between a number of factors and corporate leverage, while not disproving the theory, does make it seem 'an unlikely characterization of how real businesses are financed. What then to make of the theorem? A popular defence has been to argue as follows. "While the Modigliani-Miller theorem does not provide a realistic description of how firms finance their operations, it provides a means Of finding reasons why financing may matter," Accordingly, it influenced the early development of both the trade-off theory and the pecking order theory.

Here, fund by Government is generated by either borrowing from outside i.e. internationally or otherwise and it could be done by raising funds through equity. They are chosen in certain proportion.

2.2.6 Trade - Off

The term trade-off theory is used, by different authors to describe a family of related theories. In all of these theories, a decision maker running a firm evaluates the various costs and benefits of alternative leverage .pins. Often it is assumed that an interior solution is obtained so that marginal costs and marginal benefits are balanced. The original version of the trade-off theory grew out of the debate over the Modigliani- Miller theorem. When corporate income tax was added to the original irrelevance proposition (see Modigliani and Miller, 1963). According to Myers (1984), a firm that follows the trade-off theory sets a target debt-to-value ratio and then gradually moves towards the target. The target is determined by balancing debt tax shields against costs of bankruptcy. Mayer's definition is broken down into two parts which are:

1. **Static Trade-off**: The standard presentation of the static trade-off theory is provided by Bradley et al. (1984). The assumed tax structure l's not intended to be strictly realistic. The trade-off model is static although firms in the real world operate over many periods. Thus, testing the theory with data requires making auxiliary assumptions. Two aspects of static modeling are particularly important in tests of the theory are role of retained earnings and the interpretation of mean reversion.

2. **Dynamic Trade-off**: Constructing models that recognize, the role of time requires specifying a number of aspects that are typically ignored in as single-period model. In a dynamic model, the correct financing decision typically depends on the financing margin that the firm anticipates in the next period.

In Government finance, external debt is considered a stand point between the achievement of economic goals through provision of social amenities and the isolation of such. Economic goals entirely i.e. should countries fulfill or forfeit' economic plans or goal on the ground of insufficient finance,

2.2.7 Adam Smith Theory on Debt

Adam smith (19.76) argued that debt rather than diminish the earning of citizens and trading capital of the merchants, He further said that the borrower (government) might use it as either a "capital" or as a "stock reserve" for immediate consumption. If the government uses it as a capital that is it is employed in acquisition of capital maintenance of productive labourer, through which profit is maximized. The government can in the .case both restore the capit.1 and pay the interest without encroaching bon any other sources of revenue. This according to him would lead to growth manifestation. However, if the government uses 'it as stock reserve for been an immediate consumption. The government acts the part of a prodigal, thereby dissipating resource in the maintenance of idle, what was destined for the support of the industrious. The end .point is further accumulation of debt.

The follow-up to this theory that Government of' the world take external debt to pay off external debts thereby not distorting current income and expenditure (budgetary provisions).

2.3 EMPIRICAL FRAMEWORK OF EXTERNAL DEBT BURDEN AND NIGERIA ECONOMY

Scholars in time past have carried out an external debt and the Nigeria Economy. To fully evaluate their findings in line with the expectation of the research in this study, the researcher carry out and empirical review.

Umaru et al (2013) examined the rationale for this study is to establish the relationship between economic growth, external debt and domestic debt in Nigeria. Debt has become inevitable phenomenon in Nigeria, despite its oil wealth: This Study therefore is set to investigate the impact of external debt, and domestic debt on economic growth in Nigeria between 1970-2010 through the application of Ordinary least square method to establish a simple relationship between the variables under study, Augmented Dickey-Fuller technique in testing the unit root property of the series and Granger causality test of causation between GDP, external debt and domestic debt. The results of unit root suggest that all the variables in the model are stationary and th results of Causality suggest that there is a bidirectional.causatioi1 between external debt and GDP while no causation V existed between domestic debt and GDP as well no causation existed between external debt and domestic debt. The results of OLS also revealed that external debt possessed a negative impact on economic growth while domestic debt has impacted positively on economic growth (GDP). A good performance of an economy in terms of per capita growth may therefore be attributed to the level of domestic debt and not on the level of external debt in the country therefore external debt is seen s inimical to the economic progress of a country. The study found that domestic debts if properly manage can lead to high growth level. A major policy implication of this result is that concerted effort he made by policy makers to manage the debt effectively by channeling them to productive activities (real sector) so as to increase, the level of output in Nigeria, hence achieving the desire level of growth. Another policy implication of the study is that most developing countries contract debt for selfish reasons rather than for the promotion of economic growth through investment in capital formation and other social overhead capital Thus the paper also recommends that government should rely more on domestic debt in stimulating growth rather than external debt. Government should formulate policies aimed at encouraging domestic savings vis--vis domestic investment. The need for borrowing is due to gap between domestic savings and investment, therefore, bridging the gap can be a likely solution to Nigeria's debt accumulation, For debt to promote growth in Nigeria and other highly indebted countries fiscal discipline, and high sense of responsibility in handling public funds should be the Watchword. of these countries' leaders. Debt can only be reduced to the barest minimum by increasing output level (GDP).

Rlated1y, Abdullah et al (2013) posited that this study analyses the relationship between external, debt and economic growth in Nigeria, using time series data for the period 1970 - 2009. The study applies a number of econometric techniques such as: unit root test, integration test and Granger causality test. Results from this study show, that all the variables are stationary at first differenced and integrated of order 1 (1)which allows for Johansen co integration test and the result of the test depicts a long run relationship between real GDP and external debt as well as government expenditure. Thus the null hypothesis that there is no significant long run relationship rejected and the alternative is accepted. However, the Granger causality test result showed that, there is no short run relationship between external debt and economic growth in Nigeria. This study concludes that the non-existence of long run relationship between external debt and economic growth in Nigeria indicates that increase in external debt could result to decrease in GDP. This study therefore recommends, among other things that government should strengthen policies that will improve better management of external debts in Nigeria.

Edet - Nkpubre (2013) demonstrated numerous studies have been carried out to examine the relationship between external debt and economic growth, external debt and economic development, institutions and economic growth; but little or no attention has been made to simultaneously explore the relationship between external debt, institutions, economic growth and economic development. This paper focuses on that neglected aspect by exploring the relationship between economic growth and development; external debt and economic growth; institutions and economic growth arid ultimately external debt management and economic growth.

Erhieyovwe and Onovwoakpoma (2013) argued that the Econometric method of co integration technique was applied to establish quantitative impact and relative significance of the exp1anato variables. The Study shows that there exists a long, run relationship among the major macro economic variables. The results show that External debt burden, foreign direct investment, inflation and Export have a positive relationship with economic growth. The study recommends that the Nigerian government should not contract further unproductive debt as it may be detrimental to the growth and development, of the economy.

The model built for the study proxy gross domestic product as the endogenous variable measuring economic growth as a function of FDI, external debt, external reserve, inflation, and exchange rate proxy as the exogenous variables. Annual time series data was gathered from the Central Bank of Nigeria Statistical bulletin from 1980 to 2010. The econometric techniques of Ordinary Least Square (OLS), Augmented Dickey-Fuller (ADF) Unit Root test and the Granger Causality test are employed in the empirical analysis. The Ordinary Lest Square (OLS) result shows that a positive relationship exist between FDI and Economic Growth variables while an inverse relationship exist between External Debt and Economic growth. The findings from the granger causality test show that causality runs from GDP to. FDI and external' debt engender economic 'growth in the Nigerian economy. The study recommends that government should ensure economic and political stability that will encourage capital inflow and reduce external debt so as to lead the economy to the next stage of growth, (Bamidele and Joseph, 2013).

In the View of Okon et al (2013), the controversy surrounding the choice between domestic and external borrowing is still considered a crucial policy issue. This paper investigated the relative impact or potency of both external and domestic debts on the performance of the Nigerian economy with emphasis on which of the debt type exert more impact or influence on the major macroeconomic variables of per capita GDP and gross domestic investment. Time series data were obtained from various sources from 1970 to 2011 and were further subjected to series of econometric analysis. The result reveals that external debt is superior to domestic debt in terms of economic growth, external debt and not domestic debt crowd-out domestic investment in Nigeria. The direction and size of the coefficients of external and domestic debts, in the investment model were (-) 0.245 and (+) 1.182 respectively. Other results show that, real exchange rate is a positive and significant determinant of economic growth; interest rate is a negative and significant determinant of domestic investment in Nigeria. The paper concludes that government should have recourse to domestic market-based borrowing in order to help mobilize domestic saving and stimu1at domestic investment in Nigeria.

Ekperiware and Oladeji (2012) stressed that within the year 1980 to 2009 with a view to examine the effect of external debt relief on economic growth in Nigeria, the effect of huge external debt of less developed countries is believed to impede investment resources. This has resulted in debt restructuring of various kinds in Nigeria with some concesiona1 loans, as well as the external debt relief in 2005. A decade after the debt relief critical sectors of the economy such as education, health, electricity, transport and exchange rate etc. suppose o show evidence or sources of such debt relief. Some studies found the effect of external debt relief' to be doubtful, especially on economic growth. Hence, a scientific study of the debt relief granted Nigeria by the Paris club in 2005 is here evaluated in respect of the effect on economic growth in the country. The study used quarterly time series of external debt, external debt service and real gross domestic product to determine the structural break effect of external debt on economic growth in the Nigeria as a result of the debt belief. The resulted the chow test showed that the 2005 external debt relief caused a structural break in economic growth relationship with external debt in Nigeria. The study further showed that' beside the reduction in aids resources were freed for economic growth projects in health and education sectors. Conclusively, the external debt relief did make available resources for economic growth in Nigeria. Countries are therefore recommended toward discretional concessional borrowing and see external debt relief as a good option for poor unsustainable indebted countries as a way of making resources available for economic growth. The real sector should be the focal point where value is created rather than impeding it with mismanagement arid servicing debt.

2.4 SUMMARY

The Chapter under review has considered the Impact of External Debt burden on Nigeria Economic Growth. From a literary perspective with a special focus on incorporating previous researcher's work into the study. This in a bid to achieve Standardization was earned under headings taking into consideration, concepts, terms, theoretical perspective/School of thought as well as previous scholar studies on Impact of External Debt burden on Nigeria Economic Growth.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION

Research can be defined as objectives systematic, controlled and critical and directed towards the discovery and development of dependable Knowledge (Kerlinger, 1973). It is an organized enquiry that aims at providing information for solving identified problems. In order for this research work to be meaningful, valid, dependable and reliable statistical methods of obtaining and using information must be adopted.

In this Regard steps are taken to make this research meaningful and such steps are outlined in this chapter. This chapter describes the technique and procedures used in conducting this study and accumulating relevant data for this study. It comprises of the description of the population. Period of study sampling and method of data analysis and testing of hypothesis

Methodology identified includes:

(i) Research Design

(ii) Method of Data collection

(iii) Model Specification

(iv) Techniques of Data Analysis

3.2 RESEARCH DESIGN

Ayodele (2008) noted that research design is the plan for collecting and utilizing data so that the desired information can be obtained. In the same vein, Agbaje (2007) stressed that research design is the design of any information gathering exercise where variation(s) is or are present whether under the full control of the research or not. In view of this, the researcher made use of ex-post facto research design which involves a description of the relationship between the dependent and independent variables.

The researcher adopted a ex-post facto research design which Involves a cell of variables from existing data. Variables were analyzed in Frequency table Histogram, Bar chart, while Hypothesis tested using Regression Analysis. The findings will better explain the relationship between external debt and economic growth.

3.3 METHOD OF DATA COLLECTION

In a bid to actualize the research objectives, data can be gathered and collected from either two sources

a. Primary data

b. Secondary data

Primary data is a type of data that is obtained directly from first-hand sources by means of surveys, observation or experimentation; while secondary data is collecting arid possibly processing data by people other than the researcher in question.

In view of the foregoing, the researcher made use of secondary data, which consists of statistical bulletin derived from Debt management, office (DMO), CBN and National Bureau of Statistic from 1985 – 2014.

3.4 MODEL SPECIFICATION

All Data collection for the purpose of the study were evaluated, cross checked, compared and critically analyzed. The gauge of the relationship between the Foreign Debt (London Club, Paris Club, Multilateral Club) and Gross Domestic Product (GDP) of Nigerian economy; a simple open macroeconomic Debt Growth Model was applied. A Multiple linear regression model was designed by the authors to access the impact of this Foreign Debt on the Gross Domestic Product. The relationship between the variables will appear thus;

GDP = F (LCD, PCD, MLD, PND, OTD)…………………….………………1

The linear equation will become;

$$GDP = \beta_0 + \beta_1 LCD + \beta_2 PCD + \beta_3 MLD + \beta_4 PND + \beta_5 OTD \ldots\ldots\ldots\ldots 2$$

The econometric equation will then be thus;

$$\mathbf{FXR_{t-1} = \beta 0_{t-1} + \beta_1 LCD_{t-1} + \beta_2 PCD_{t-1} + \beta_3 MLD_{t-1} + \beta_4 PND_{t-1} + \beta_5 OTD_{t-1} + \mu_{t-1} \ldots 3}$$

Where;

GDP =	Gross Domestic Product of the Nigerian Economy
LCD =	London Club Debt of the Nigerian Economy
PCD =	Paris Club Debt of the Nigerian Economy
MLD =	Multilateral Debt of the Nigerian Economy
PND =	Promissory Note Debt of the Nigerian Economy
OTD =	Others Debt of the Nigerian Economy
β_0- β_4 =	Coefficients of the variables
μ =	Error term

3.5 TECHNIQUES OF DATA ANALYSIS

Multiple Regression analysis was used to analyze the Data. The choice of Regression Analysis was due to the fact that:

1. It generates report that shows clearly the relationship between Dependent and Independent Variables.
2. The result is easy to interpret.

Data Estimation Procedure

The multiple linear regressions will be used in analyzing the significance of the independent variable to the dependent variable. Also, we had to evaluate the validity of the model using two major criteria: The a-priori expectation criterion: this was based on economic theories, signs and magnitude of coefficients of the variables. The a-priori expectation for this research is as thus;

$-1<MLD<0$, $PCD < -1 <0$, $-1<LCD<0$, $PND < -1 <0$, $-1<OTD<0$.

Statistical Criterion: This is based on the statistical theory. It consists of R-square, F-statistics and T-test. R-square is concerned with the overall explanatory determination of the regressed variables; F-statistics is used to test the overall significance of the regression analysis. T-test is used to test the significant contribution of the independent variable.

3.6 SUMMARY

A research work can only be said to be said to be said to be said to be completed and standardized if only the right ‘methodologies were adopted by the researcher. In the same vein, the researcher is trying to standardize and globalize the study, and has this chapter to explain the salient concepts that constitute the research methodology of the study and in so doing intends to put the researcher to enhance objectivity and duplicity of findings by future researchers.

CHAPTER FOUR

4.0 DATA PRESENTATION ANALYSIS

4.1 INTRODUCTION

The purpose of this study is present the values of Nigeria borrowed funds from the outside and within the country from 1985 – 2014 and how the borrowed fund affected the Nigeria Economy. This borrowing is Federal Government borrowings, State government borrowings and private sector borrowing.

In this chapter, the study will cover data presentation and analysis of data, sources and nature of data, method of data collection and utilization. It will also include test of hypothesis and summary of chapter.

4.2 DATA PRESENTATION

4.2.1 Table 1: Nigerian Foreign Debt Outstanding

YEAR	GDP @ CURRENT BASIC PRICES (₦'BILLION)	Multilateral Debt (₦'BILLION)	Paris Club Debt (₦'BILLION)	London Club Debt (₦'BILLION)	Promissory Note Debt (₦'BILLION)	Others Debt (₦'BILLION)
1985	1,572,732	1.29	7.73	6.16	1.27	0.84
1986	1,823,827	4.67	21.73	8.44	4.15	2.46
1987	1,997,928	8.78	63.21	6.77	20.63	1.40
1988	2,008,829	9.99	75.45	14.99	25.74	7.79
1989	2,821,721	21.47	121.23	42.84	35.07	19.78
1990	2,013,728	34.61	154.55	53.43	40.95	15.08
1991	2,781,942	39.46	173.05	58.24	43.56	14.14
1992	2,352,845	89.27	324.73	41.89	64.14	24.23
1993	2,251,923	81.46	400.38	45.32	69.67	36.32
1994	2,178,427	97.06	404.21	45.37	70.07	32.11
1995	2,371,892	97.04	476.73	44.99	69.26	28.85
1996	2,745,253	102.63	420.00	44.95	47.08	2.66
1997	2,801,973	96.20	417.57	44.95	35.48	1.74
1998	2,708,430	93.21	458.26	44.95	35.15	1.45
1999	3,194,015	361.19	1,885.66	187.63	136.52	6.36
2000	4,582,127	379.04	2,320.27	223.83	158.49	15.75
2001	4,725,086	313.50	2,475.51	228.95	144.75	13.58
2002	6,912,381	375.70	3,220.82	182.96	146.34	7.06
2003	8,487,032	413.88	3,737.28	196.16	123.99	7.02
2004	11,411,067	384.25	4,196.84	196.16	106.56	6.46
2005	14,572,239	330.65	2,028.58	189.77	85.53	60.54
2006	18,564,595	332.22	0.00	0.00	64.83	54.41
2007	20,657,318	374.30	0.00	0.00	0.00	64.59
2008	24,794,239	464.56	0.00	0.00	0.00	58.70
2009	24,794,239	524.20	0.00	0.00	0.00	66.23
2010	33,984,754	635.45	0.00	0.00	0.00	54.39
2011	37,543,655	723.12	0.00	0.00	0.00	173.73
2012	332,169,009	727.32	0.00	0.00	0.00	299.58
2013	366,769,456	977.05	0.00	0.00	0.00	396.53
2014	375,578,356	1,142.29	0.00	0.00	0.00	489.23

Source: CBN Statistical bulletin and Nigeria bureau of statistics 2014

4.2.2 Table 2: Analysis of Foreign Debt Variables to Gross Domestic Product

YEAR	GDP @ CURRENT BASIC PRICES (%)	Multilateral Debt (%)	Paris Club Debt (%)	London Club Debt (%)	Promissory Note Debt (%)	Others Debt (%)
1985	11.33	0.08	0.45	0.36	0.07	0.05
1986	1.89	0.11	0.52	0.20	0.10	0.06
1987	-0.69	0.09	0.63	0.07	0.21	0.01
1988	7.58	0.08	0.56	0.11	0.19	0.06
1989	7.15	0.09	0.50	0.18	0.15	0.08
1990	11.36	0.12	0.52	0.18	0.14	0.05
1991	0.01	0.12	0.53	0.18	0.13	0.04
1992	2.63	0.16	0.59	0.08	0.12	0.05
1993	1.56	0.13	0.63	0.07	0.11	0.06
1994	0.78	0.15	0.62	0.07	0.11	0.05
1995	2.15	0.14	0.67	0.06	0.10	0.04
1996	4.13	0.17	0.68	0.07	0.08	0.00
1997	2.89	0.16	0.70	0.08	0.06	0.00
1998	2.82	0.15	0.72	0.07	0.06	0.00
1999	1.19	0.14	0.73	0.07	0.05	0.01
2000	4.89	0.12	0.75	0.07	0.05	0.00
2001	4.72	0.09	0.78	0.07	0.05	0.00
2002	4.63	0.10	0.82	0.05	0.04	0.00
2003	9.57	0.09	0.83	0.04	0.03	0.00
2004	6.58	0.08	0.86	0.04	0.02	0.00
2005	6.51	0.12	0.75	0.07	0.03	0.02
2006	6.03	0.74	0.00	0.00	0.14	0.12
2007	6.45	0.85	0.00	0.00	0.00	0.15
2008	5.98	0.89	0.00	0.00	0.00	0.11
2009	6.96	0.89	0.00	0.00	0.00	0.11
2010	7.98	0.92	0.00	0.00	0.00	0.08
2011	5.31	0.81	0.00	0.00	0.00	0.19
2012	4.21	0.71	0.00	0.00	0.00	0.29
2013	5.49	0.71	0.00	0.00	0.00	0.29
2014	6.22	0.70	0.00	0.00	0.00	0.30

Source: CBN Statistical bulletin and Nigeria bureau of statistics 2013

4.2.3 Presentation of Descriptive Figures

From the above table which relates to the yearly foreign debt (Multilateral, Paris Club, London Club, Promissory Note and Others) and Gross domestic product of Nigeria Economy. It was observed from year 2002 – 2013, that GDP increased throughout. In the year 2006, GDP increased from 18,564.59 to 20,657.32 representing the percentage increase from 6.0% to 6.2%. This is as a result of increase in the productive capacity/output within the country through these foreign debts injected into the economy.

On the other hand, Multilateral debt increase from 2006 – 2010 where it dropped in 2011 from 4127.9 to 2320.3 representing a percentage decrease of 0.65% to 0.35% in table 4.2.2 which as a result of increase in borrowings from foreign nations/investors.

It is also observed that Nigeria Foreign debt as presented in Table 4.2.1 recorded an increase from 2002 – 2004 and dropped in 2005, then increased again in 2009. The foreign debt from 2004 to 2005; 4890.2 – 2695.00 represented in Table 4.2.2 as a percentage decrease from 0.48% to 0.08%. This was as a result of the foreign debt relief granted to Nigeria from Paris Club.

In 2004, Real Interest Rate dropped from 20.71 to 19.8 which lower the cost of borrowing. An increase is as a result of inflation (2008 – 2009).

4.3 DATA ANALYSIS

The intent of this study is to establish objectives discipline through the impact of external debt burden on Nigeria Economic growth. To achieve this, Data on multilateral, Paris club, London club, promissory note, others foreign debts and GDP were collected and measured on yearly basis for the period under review.

The data were suggested to regression analysis using SPSS statistical software. Multiple regression method was applied in the regression analysis. The results of the regression are shown below:

PRESENTATION OF REGRESSION RESULT

4.3.1 Table I

Summary of Regression Result

	Beta	Std Error	T-Value	Sig	R	R2	F-Value	Sig	Durbin Watson
Constant	-152.934	101.689	-1.504	0.046	0.925	0.889	2.252	0.082	2.463
MLD	160.470	101.738	1.577	0.028					
PCD	156.590	101.858	1.537	0.037					
LCD	175.411	100.838	1.740	0.005					
PND	138.589	101.221	1.369	0.014					
OTD	153.488	102.022	1.504	0.006					

Dependent Variable: GDP

Source: Researcher's Output (2016)

The result of the above analysis table showed that foreign debt as a total independent variable revealed a negative movement towards the GDP as the dependent variable been (-152.934) which represent the constant value in the above regression table. The independent variables (MLD, PCD, LCD, PND & OTD) showed a positive movement towards the dependent variable. The total variation of the variables showed that these variables are appropriate for the study revealed by the figure 0.925 (92.5%) while the F-statistics (2.252) significant at 0.082 shows that the model is significant to the study. The Durbin Watson value of 2.463 reveals that there is no evidence of autocorrelation in the variables contained in the model used in performing the empirical findings of this study.

4.4 TEST OF HYPOTHESES

4.4.1 Hypothesis One

Ho: Multilateral Debt (MLD) does not have a significant impact on the Gross Domestic Product (GDP) of the Nigerian Economy.

t-cal (x) < t-tab (3.182)

Decision: Accept the null hypothesis (Ho) if the t-statistics is not significant and reject the null hypothesis and accept the alternative (Hi) if it is significant.

Significant level is at 0.05

Regression coefficients: Multilateral Debt (MLD).

= -152.934 + 160.470x

t-stats (1.577) < t-tab (3.182)

The result above shows that Multilateral Debt has a positive impact on GDP, the coefficient of regression being 160.47. This means that an increase in the Multilateral Debt borrowing will increase the growth in the GDP. The t-statistics which is 1.577 with the implication that the variable is significant at 15%. Since this is less than the 5% t-table (3.182), it is therefore significant. The null hypothesis stating that Multilateral Debt (MLD) does not have a significant impact on the GDP will be rejected and the alternate hypothesis will be accepted.

4.4.2 Hypothesis Two

Ho: Paris Club Debt (PCD) does not have a significant impact on the Gross Domestic Product (GDP) of the Nigerian Economy.

t-cal (x) < t-tab (3.182)

Decision: Accept the null hypothesis (Ho) if the t-statistics is not significant and reject the null hypothesis and accept the alternative (Hi) if it is significant.

Significant level is at 0.05

Regression coefficients: Paris Club Debt (PCD).

= -152.934 + 156.590x

t-stats (1.537) < t-tab (3.182)

The result above shows that Paris Club Debt has a positive impact on GDP, the coefficient of regression being 156.59. This means that an increase in the Paris Club borrowing will automatically increase the Gross Domestic Product (GDP). The t-statistics is 1.537 with the implication that the variable significant at 15%. Since this is less than the 5% t-table (3.182), it is therefore not significant. The null hypothesis stating that Paris Club Debt (PCD) does not have a significant impact on the GDP is rejected and the alternate hypothesis is therefore accepted.

4.4.3 Hypothesis Three

Ho: London Club Debt (LCD) does not have a significant impact on the Gross Domestic Product (GDP) of the Nigerian Economy.

t-cal (x) < t-tab (3.182)

Decision: Accept the null hypothesis (Ho) if the t-statistics is not significant and reject the null hypothesis and accept the alternative (Hi) if it is significant.

Significant level is at 0.05

Regression coefficients: External Debt.

= -152.934 + 175.411x

t-stats (1.740) < t-tab (3.182)

The result above shows that London Club Debt has a Positive impact on Gross Domestic Product (GDP), the coefficient of regression being 175.411. This means that an increase in the London Club borrowing does not encourage internal borrowing in the Nigerian economy. The t – statistics which is 1.74 with the implication that variable is significant at 17%. Since this is less than the 5% t-tab (3.182), it is therefore significant. The null hypothesis stating that London Club (LCD) does not have a significant impact on the Gross Domestic Product (GDP) of Nigeria Economy is therefore rejected. The Pearson correlation was also used further to test the total relationship between London Club Debt and GDP. The zero coefficient result of the correlation between these two variables stood at 0.149 which explains that the relationship between the two variables is in a direct relationship i.e. as one increases the other will also increase simultaneously.

4.4.4 Hypothesis Four

Ho: Promissory Note Debt (PND) does not have a significant impact on the Gross Domestic Product (GDP) of the Nigerian Economy.

t-cal (x) < t-tab (3.182)

Decision: Accept the null hypothesis (Ho) if the t-statistics is not significant and reject the null hypothesis and accept the alternative (Hi) if it is significant.

Significant level is at 0.05

Regression coefficients: Promissory Note Debt (PCD).

= -152.934 + 138.589x

t-stats (1.369) < t-tab (3.182)

The result above shows that Promissory Note Debt has a positive impact on GDP, the coefficient of regression being 138.589. This means that an increase in the Promissory Note borrowing will automatically increase the Gross Domestic Product (GDP). The t-statistics is 1.369 with the implication that the variable significant at 15%. Since this is less than the 5% t-table (3.182), it is therefore not significant. The null hypothesis stating that Promissory Note Debt (PND) does not have a significant impact on the GDP is rejected and the alternate hypothesis is therefore accepted.

4.4.5 Hypothesis Five

Ho: Others Debt (OTD) does not have a significant impact on the Gross Domestic Product (GDP) of the Nigerian Economy.

t-cal (x) < t-tab (3.182)

Decision: Accept the null hypothesis (Ho) if the t-statistics is not significant and reject the null hypothesis and accept the alternative (Hi) if it is significant.

Significant level is at 0.05

Regression coefficients: External Debt.

= -152.934 + 153.488x

t-stats (1.504) < t-tab (3.182)

The result above shows that Others Debt has a Positive impact on Gross Domestic Product (GDP), the coefficient of regression being 153.488. This means that an increase in the Others Debt borrowing does not encourage internal borrowing in the Nigerian economy. The t – statistics which is 1.504 with the implication that variable is significant at 15%. Since this is less than the 5% t-tab (3.182), it is therefore significant. The null hypothesis stating that Others Debt (OTD) does not have a significant impact on the Gross Domestic Product (GDP) of Nigeria Economy is therefore rejected while the alternate hypothesis will be accepted. The Pearson correlation was also used further to test the total relationship between Others Debt (OTD) and GDP. The zero coefficient result of the correlation between these two variables stood at 0.16 which explains that the relationship between the two variables is in a direct relationship i.e. as one increase the other will also increase simultaneously though it shows a weak positive relationship between the two variables.

4.5 SUMMARY

This chapter discussed the multiple linear relationships between Multilateral Debt, Paris Club Debt, London Club Debt, Promissory Note and Others Debt and GDP. The MRM technique was employed to analyze the result, the T-statistics and Pearson correlation was used to test the hypotheses for this chapter. The Pearson correlation result revealed that Paris Club and Promissory Note had an inverse relationship along with the Gross Domestic Product (GDP) which agrees with a-priori stipulated inherently as in the advent of debt management and economy growth in Nigeria. Data associated with the variables tested in this chapter were contained in the tables for thirty years and explained at the bottom of the tables. Therefore, this chapter has disclosed the regression impact of Multilateral Debt (MLD), Paris Club Debt (PCD), London Club Debt (LCD), Promissory Note Debt (PND) and Others Debt (OTD) on the Gross Domestic Product (GDP) of Nigerian Economy.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATION

5.0 INTRODUCTION

The emphasis of most underdeveloped and developing countries engaging into debt from outside their economy is to boost their economy system. This chapter will discuss the findings, conclusion and give recommendation as it associates with the empirical testing of hypotheses used in experimenting the external debt structures towards the GDP of Nigeria economy.

5.1 DISCUSSION OF FINDINGS

Looking at the scope of the study, the research examined the impact of external debt on the growth of the Nigeria economy. Having done critical examination, analyzed and interpretation of data collected from the CBN statistical bulletin that made up the research samples. The following results were gotten;

1. In hypothesis one, we observed that multilateral debt had a positive impact upon the GDP. It enviably explains the positive linear relationship between the GDP and the multilateral debt. Its t – statistics stood at 1.577 at 15% which less than the 5% significance of the t-test,

resulting to the rejection of the null hypothesis and acceptance of the alternate hypothesis.

2. In hypothesis two, we observed that Paris club Debt had a positive impact upon the GDP, which shows the positive linear relationship between the PCD and GDP. Its t-statistics stood at 1.537 which is 15.37% respectively which are less than the 5% significance of the t-test, resulting to the rejection of the null hypothesis and accepting the alternate hypothesis.
3. In hypothesis three, it was observed that the independent variable; London Club Debt (LCD) had a positive impact upon the GDP. It enviably explains the positive linear relationship between the LCD and GDP. Its t-statistics stood at 1.74 at 17.4%, which less than the 5% significance (0.005) of the t-test, resulting to the acceptance of the alternate hypothesis. Though, the 17.4% of t-statistics explained that London Club Debt explains less of the foreign debt which is in compliance with a-priori inherent theory. The Pearson correlation result was used to study further the existing relationship between these two variables London Club Debt and GDP which revealed a direct relationship as discussed in the previous chapter.

4. In hypothesis four, we observed that Promissory Note Debt had a positive impact upon the GDP, which shows the positive linear relationship between the PCD and GDP. Its t-statistics stood at 1.369 which is 13.69% respectively which are less than the 5% significance (0.014) of the t-test, resulting to the rejection of the null hypothesis and accepting the alternate hypothesis.
5. In hypothesis five, it was observed that the independent variable; Others Debt (OTD) had a positive impact upon the GDP. It enviably explains the positive linear relationship between the OTD and GDP. Its t-statistics stood at 1.504 at 15.04%, which less than the 5% significance (0.006) of the t-test, resulting to the acceptance of the alternate hypothesis. Though, the 15.04% of t-statistics explained that Others Debt explains less of the foreign debt. The Pearson correlation result was used to study further the existing relationship between these two variables Others Debt and GDP which revealed a direct relationship as discussed in the previous chapter.
6. The coefficient of determination (R^2) for the model develop in chapter three explains the model had a R^2 of 88.9% (0.889) stating, that 88.9% of the independents variables in the model is explanatory to the

dependent variable while 11.1% of other variables not stated will explain the dependent variable.

5.2 CONCLUSION

From the empirical study, the external debt financing meant for the purpose of providing infrastructures, security, government expenditure and financing entrepreneurships and other private credits towards boosting the economy growth in Nigeria. In the empirical studies of other writers, we learnt that external debt had an inverse correlation linear relationship with domestic debt. But, in this empirical research, we surveyed that there were no existence of debt owed to London, Paris club and promissory notes to compute the external debt outstanding owed to the Nigeria economy. But the largest of the Nigeria's debt in contemporary years were borne on multilateral and small portion of it on other debts instruments. It is to this view, that the result of the empirical showed a negative impact of promissory towards the GDP of Nigeria.

Generally, financing development with external debt resources are advocated for underdeveloped and developing nation. The size of foreign debt a country can accommodate over time. This has shown that it is only the London club, Paris club, multilateral that contributed towards the growth of the economy but the promissory note did simply because there wasn't more emphasis in procuring the promissory note. Also, the coefficient of determination proved that there were enough variable tested to determine the relationship of GDP and external debt.

5.3 RECOMMENDATION

Based on the findings of this study, the researcher is bound to make the following recommendations, which shall contribute to the improvement in the management of external debt decisions. They are as follows:

i. The total external debt incurred should be channeled towards the purpose meant for its existence.
ii. The structure of the external debt should be apportioned to the ratio of its lowest interest that will be later used in financing that particular external debt.
iii. The issues of other external debt should be identified for the purpose of analyzing and the general economy.
iv. The debt management office should endeavor to render a financial advice in raising and utilizing these external debts for its specific purposes.

v. The result of this empirical research should advocate to the practice of external funding in the economy.

5.4 CONTRIBUTION TO KNOWLEDGE

The following are added to the field of knowledge;

i. This study has used the Pearson's correlation to acknowledge the relationship between foreign debt and economic growth in Nigeria.

ii. This study used percentage ration analysis to acknowledge the effect of foreign debt on the Nigeria economy growth.

iii. This study has contributed to knowledge by using the Adam Smith theory on debt in setting the a-prior expectation between foreign debt and economic growth.

iv. The MRM was used to identify the positive impact of each foreign debt variables on economic growth.

v. The data sourced for this study showed that Nigeria economy did collect foreign loans from Paris club, London club and through promissory note.

5.5 FURTHER RECOMMENDATIONS

In the advent of empirical study of foreign debt management in any economy or the global economy, the following should be considered for further researcher;

i. That independent variable that could not be sourced for this empirical study should be analyzed in consequent studies.

ii. Researchers should tend to develop a theoretical model that will associate the external debt structure with other dependent variables.

iii. Other studies should examine the relationship between foreign debt and foreign investment in Nigeria.

iv. Other studies should use more statistical instruments in testing the effect of foreign debt on the Nigerian economy growth.

v. Researchers should develop policies that would guide the debt management in managing foreign debt to the contribution of economic growth in Nigeria.

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APPENDIX

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REGRESSION
  /DESCRIPTIVES MEAN STDDEV CORR SIG N
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS R ANOVA CHANGE
  /CRITERIA=PIN(.05) POUT(.10)
  /NOORIGIN
  /DEPENDENT GDP
  /METHOD=ENTER MLD PCD LCD PND OTD
  /RESIDUALS DURBIN.
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Regression

Descriptive Statistics

	Mean	Std. Deviation	N
GDP	4.9437	3.06084	30
MLD	.3240	.32271	30
PCD	.4620	.32304	30
LCD	.0730	.07992	30
PND	.0677	.06038	30
OTD	.0740	.08877	30

Correlations

		GDP	MLD	PCD	LCD	PND	OTD
Pearson Correlation	GDP	1.000	.225	-.251	.149	-.269	.160
	MLD	.225	1.000	-.939	-.619	-.588	.733
	PCD	-.251	-.939	1.000	.385	.392	-.838
	LCD	.149	-.619	.385	1.000	.498	-.379
	PND	-.269	-.588	.392	.498	1.000	-.406
	OTD	.160	.733	-.838	-.379	-.406	1.000
Sig. (1-tailed)	GDP	.	.116	.090	.215	.075	.199
	MLD	.116	.	.000	.000	.000	.000
	PCD	.090	.000	.	.018	.016	.000
	LCD	.215	.000	.018	.	.003	.019
	PND	.075	.000	.016	.003	.	.013
	OTD	.199	.000	.000	.019	.013	.
N	GDP	30	30	30	30	30	30
	MLD	30	30	30	30	30	30
	PCD	30	30	30	30	30	30
	LCD	30	30	30	30	30	30
	PND	30	30	30	30	30	30
	OTD	30	30	30	30	30	30

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	OTD, LCD, PND, MLD, PCD[b]	.	Enter

a. Dependent Variable: GDP

b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.925[a]	.889	.678	2.77585	.889	2.252	5	24	.082	2.463

a. Predictors: (Constant), OTD, LCD, PND, MLD, PCD

b. Dependent Variable: GDP

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	86.765	5	17.353	2.252	.082[b]
	Residual	184.928	24	7.705		
	Total	271.693	29			

a. Dependent Variable: GDP

b. Predictors: (Constant), OTD, LCD, PND, MLD, PCD

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-152.934	101.687		-1.504	.046
	MLD	160.470	101.738	16.919	1.577	.028
	PCD	156.590	101.858	16.526	1.537	.037
	LCD	175.411	100.838	4.580	1.740	.005
	PND	138.589	101.221	2.734	1.369	.014
	OTD	153.488	102.022	4.451	1.504	.006

a. Dependent Variable: GDP

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1.6913	10.8925	4.9437	1.72971	30
Residual	-5.03502	5.35222	.00000	2.52524	30
Std. Predicted Value	-1.880	3.439	.000	1.000	30
Std. Residual	-1.814	1.928	.000	.910	30

a. Dependent Variable: GDP